



EDA Update



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The Seed-Stage Equity Gap: Local Solutions

The current economic downturn has hit everyone hard, but it's been especially tough for small business owners and entrepreneurs seeking early stage financing. Finding these funds is tough even in a healthy economy. It's nearly impossible when credit markets are severely challenged.

In response, local, state and federal policy makers are searching for ways to open up new investment opportunities for new businesses. As part of the wider Federal economic stimulus efforts, the U.S. Small Business Administration has made it easier and cheaper to access its popular 7(a) and 504 loan programs. It has also introduced a new effort, the America's Recovery Capital Loan program, to help eligible firms with pressing working capital needs.

While these improvements are helpful, many see a market gap remaining for firms seeking equity capital in the range of \$500,000 to \$2 million. These types of firms are often on a rapid growth trajectory that cannot be financed via traditional methods. These companies are often too new or too risky to be eligible for traditional bank loans. Yet, at the same time, their capital needs are too small to interest many venture capitalists, who are often searching for deals in the \$8-12 million range. The result is what some call "the valley of death," the period before a firm is profitable, yet it still needs funding to help seed growth and the development of new products, services and technologies.

Policy makers have been grappling with this issue for years, and are considering a host of solutions. Many states and localities operate their own seed venture funds. Other regions have embraced the development of angel capital networks, which are and will continue to be a primary source of seed capital for new entrepreneurs.

While individual angel investors — wealthy individuals who invest in new or growing ventures — have always backed businesses, the development of organized investor groups is a relatively new phenomenon. Today, it's common to find organized angel groups in most major cities. Meanwhile, smaller communities and rural areas are working to develop their own home-grown angel networks. The recently-formed Angel Capital Association (ACA) now lists 187 groups as members or affiliates.

While each individual angel investment can be relatively small, the collective of angel investing is relatively large. According to the University of New Hampshire's Center for Venture Research, organized angel groups invested \$19.2 billion in more than 55,000 ventures in 2008. Nationwide, more than 260,000 were active as angel investors.

Unlike venture capitalists, who tend to focus on few high technology sectors, angels invest in all types of businesses. More importantly, they invest in the critical early stages. In 2008, 45 percent of all angel investments were for firms in the start-up or seed stage. In contrast, 19 percent of 2008 venture capital investments were in this early stage.

Because angel groups fill an important capital gap, many states and localities are trying to support these efforts through the use of tax credits or sponsorship of networks. If your

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APA's Tools-of-the-Trade Part Five: Strategy 4 — Development Incentives and Financing

State, regional and local governments recognize financing and tax incentives as dual engines for economic and — consequently — workforce development. APA's Tools-of-the-Trade ([Website](#)) highlights two popular development incentives-tax-increment financing and private activity bonds that reduce the costs for the private sector for the public benefit.

Federal Funding Opportunity Notice Available for EDA's American Recovery Program

EDA is soliciting applications under its \$150 million American Recovery Act Program, to create jobs and boost development in parts of the country hit hard by the recession. The deadline for receipt of applications under the Recovery Act Program is June 30, 2010. All other information and requirements for the EDA American Recovery Act Program may be found in the March 10, 2009, *Federal Register* notice (74 FR 10232) and the companion federal funding opportunity announcement on EDA's [Website](#).

COMING SOON!

June 29-August 1, 2009

American Chamber of Commerce Executives (ACCE) Annual Conference, Raleigh, NC
[\[Website\]](#)

August 29-September 1, 2009

NADO's 2009 Annual Training Conference, Chicago, IL
[\[Website\]](#)

September 14-26, 2009

National Association of Seed and Venture Funds (NASVF) 16th Annual Convention, Oklahoma City, OK [\[Website\]](#)

community is considering this approach, experts such as the ACA offer several tips:

- **Do Your Homework:** Ensure that there is a clear local need for angel investors and that potential investors already reside in your region.
- **Sweat the Small Stuff:** Creating angel networks involves many legal complications related to investor accreditation, partnerships and the like. Reach out to experts to ensure that these issues are properly executed.
- **Train the Angels:** Most potential investors need to be educated about why it can be profitable and fun to be an angel investor. Tap into the many angel training and support programs now available across the country.
- **Spread the Word:** Successful angel groups need deal flow, i.e., a sufficient number of potential deals in which they can invest. Generating deal flow requires that communities market the angel groups and build partnerships with various business support organizations who can refer entrepreneurs to the network.

To learn more:

- Angel Capital Association (www.angelcapitalassociation.org)
- National Governors Association Issue Brief, "State Strategies to Promote Angel Investment for Economic Growth," February 14, 2008. Available at www.nga.org.
- University of New Hampshire Center for Venture Research (<http://wsbe.unh.edu/cvr>)

September 14-17, 2009

America's Small Business Development Center (ASBDC) Annual Conference, Orlando, FL [[Website](#)]

October 4-7, 2009

IEDC 2009 Annual Conference, Renewable Communities, Reno, NV [[Website](#)]

October 11-13, 2009

University Economic Development Association Annual Summit, San Antonio, TX [[Website](#)]

The Better Angels of Our Nature Equity Capital in Sustainable Investments

It's often said that money is the fuel that drives a company's growth, and, when companies grow, communities can grow too. Yet, finding money to fuel new businesses, especially early stage equity capital, can be a challenge. Many regions and communities are now embracing angel investor networks as one tool for building local sources of business finance.

The number of angel networks in the U.S. is growing rapidly. Most of these groups invest in a variety of business sectors, but, more recently, some regions have become home to angel networks that target specific clusters or industries. For example, the Northwest Energy Angels investment group has embraced an untraditional strategy of investing in environmental sustainability and renewable energy technologies, key elements of the emerging green economy in the United States.

The Northwest Energy Angel Group is a program of the Northwest Energy Technology Collaborative (NWETC), a joint effort of industry and government, working together to accelerate the emergence and growth of the energy technology industry in the Pacific Northwest. NWETC was launched in 2002 by the Washington Technology Center (WTC), a statewide economic development organization focused on technology and innovation.

The Northwest Energy Angels is a multi-state regional membership organization comprised of successful entrepreneurs, retired business executives and other business leaders that trace their origins back to several economic development efforts in the state of Washington. The demand for industry-specific angel groups was present among investors, and the Northwest Energy Technology Collaborative energy entrepreneurs needed another easily accessible investment network. The like minded nature of the programs made the beginnings of the Northwest Energy Angels timely and advantageous for energy start-ups and investors alike.

The Northwest Energy Angels has invested in companies that strive to achieve market leadership and fuel positive changes in local and regional economies. Through mentorship, strategic advice and substantial financial backing from investors, start-ups have opportunities to mature and cultivate talent for higher-skill, higher-wage jobs.

Northwest Energy Angels launched in 2006 with the primary goal of assisting clean-energy start-ups in becoming sustainable, highly profitable, competitive entities that positively impact a region's economic viability. Energy efficiency and finding new, renewable sources of power are keeping researchers and scientists in the region busy. An industry-specific angel investing group was a natural fit for the Northwest. Investors provide a stable basis for expansion, broadening the entrepreneur's adaptability and reach within the market.

Six annual meetings in Seattle serve as the forum where group leaders scout out the start-ups that not only meet the criteria investors are seeking, but also those exhibiting the forward-

thinking and competitive edge that will propel energy industry sectors in our transitioning economy. For example, a 2006 investment of \$150,000 from a member of the Northwest Energy Angels directly funded a Ridgeline Energy wind project near Idaho Falls, which was later sold to and operated by Invenergy Wind, LLC. Ridgeline successfully developed Idaho's first large-scale wind farm, providing electricity to nearly 12,000 homes, and developed several large-scale wind projects. Moreover, the company is committed to engaging community residents and raising awareness for energy conservation.

The Northwest Energy Angels envision angel investments bolstering regional economic capacity and improving quality of life. The renewable energy industry is helping invigorate depressed communities far-flung from metro areas. For instance, wind farms — built primarily in rural locations — are adding jobs and new businesses, while adding to the region's tax-base. Additionally, wind farm development often compensates farmers and ranchers who own land where the turbines are installed. Through strategic investments, networks like the Northwest Energy Angels foster more productive and beneficial economic development for communities and regions by maximizing innovative job creation and industry stability.

The Northwest Energy Angels uniquely demonstrate how communities and regions can thrive from sustainable angel investments. The following lessons-learned will encourage economic development practitioners to recognize the links between equity capital investments and economic development:

- promoting the sustainable use of a region's natural resources can drive economic development;
- angel investing integrates community input and leadership to achieve economic development outcomes;
- angel investing calls for mentorship from experienced entrepreneurs to nurture start-ups and ignite economic development efforts; and
- sustainable angel investing encourages environmentally-friendly job creation and industry stability.

Employing this triple-bottom-line (socially, economically, and environmentally focused) strategy, angel networks have proven their worth through successful return on investment and positive economic and environmental benefits in the companies and communities they invest in.

For more information about the Northwest Energy Angels visit: <http://nwenergyangels.net/index.php>

Maine's Coastal Enterprises: Bringing Equity Investments to Rural Communities

It's a tough market for growing businesses that are seeking equity investments from venture or angel investors. It's especially tough if the firm is located in a rural area or in regions that venture capitalists (VC) pejoratively refer to as the "fly-over" states. While the term has no exact definition, it basically refers to any state or locality not located in traditional VC hotspots on the East and West Coasts.

Because of these challenges, smaller communities have had to get creative and help nurture their own home-grown sources of equity finance. Some regions have supported the creation of angel networks, while others have opted to build community development venture capital (CDVC) funds. These funds operate with a double bottom line; they hope to make money for their investors while also helping to stimulate economic development. CDVCs are growing in both sophistication and importance — the national Community Development Venture Capital Alliance estimates that the U.S. is now home to 69 CDVC funds with approximately \$1.2 billion under management.

Maine's Coastal Enterprises, Inc. (CEI) created a subsidiary that manages one of the more established CDVC initiatives in the nation. CEI has been in operation since the 1970s, originally focusing its services on coastal Maine. Today, CEI programs operate throughout northern New England. In 1995, CEI set up its first business investment subsidiary, CEI Ventures Inc.

CEI Ventures Inc. (CVI) presently manages two venture capital funds that can invest in Maine, New England and New York state. CEI also manages two other subsidiaries that invest funds related to the New Markets Tax Credit program as well as several SBA-sponsored loan programs. Like all equity investors, CVI is looking for firms that exhibit rapid growth and that are led by passionate and expert management teams. Firms that work with CVI must also sign

a "social agreement" that requires them to commit to various measures of corporate citizenship and environmental stewardship. Managing Director Nat Henshaw notes that CVI is looking for firms that can deliver on the "three Es:" equity, environment and economic performance.

CVI manages two investment funds and is raising investments for a third \$50 million fund. The two earlier funds have invested \$18— 19 million in 37 different deals. Because of its commitment to the double bottom line, CVI does not focus on a few sectors — the typical practice among venture funds. It has invested in a diverse set of companies ranging from medical diagnostic testing firm to a designer of women's outdoor apparel to a provider of rural broadband services. CV Finer Foods, now operating as World Harbors, Inc. is one of the more interesting and successful firms in the CVI portfolio. The company produces all-natural food sauces and marinades. Based in Winthrop, Maine, the firm had eight employees when it first came to CVI's attention and currently employs about 25. With CVI's investment and consulting support, the firm rapidly grew and was ultimately purchased by Angostura International in 2000. The firm continues to sell products under the Angostura and Acadia Naturals labels.

Another portfolio company, Look's Gourmet Foods of Whiting, Maine, is also in the food sector. Look's produces authentic chowders, soups and other products under the Bar Harbor Foods label. Look's exemplifies the Henshaw's concept of "the 3E's." In addition to being a successful business (it's on the current Inc. 500 list), the firm is committed to sustainable fishing practices and using the products from local lobstermen and other merchants.

When asked to offer some lessons-learned from more than a decade of rural venture investing, Henshaw encourages others to be in it for the long haul. As he notes, "This is an extremely long-term business. It takes commitment, staying power and perseverance." He's also optimistic about the future: "Even though now is a tough time to raise funds, it's actually a good time to invest. There are lots of opportunities now and in the future."

For more information: Community Development Venture Capital Alliance: www.cdvca.org.
Coastal Ventures Inc. Enterprises: www.ceventures.com

EDA's Excellence in Economic Development 2009 Award Winners Announced

On Friday, June 5, 2009, U.S. Commerce Secretary Gary Locke announced the seven winners of the Economic Development Administration's (EDA) Excellence in Economic Development Awards 2009. "Excellence Award winners exemplify the importance of supporting regional strategies to ensure American communities succeed in the global marketplace and create higher-skill, higher-wage jobs," Locke said.

The winners are provided below by category.

Excellence in Urban or Suburban Economic Development

JumpStart, Inc., Cleveland, Ohio

Excellence in Rural Economic Development

Louisiana Business and Technology Center, Louisiana State University
Specific Program: Mobile Classroom "Driving Louisiana's Economy"
Baton Rouge, Louisiana

Excellence in Environmental or Energy Economic Development

Saginaw Future, Inc.; Michigan Economic Development Corporation; Saginaw County Chamber of Commerce, Saginaw, Michigan

Excellence in University-Led Strategies

Rochester Institute of Technology Center for Integrated Manufacturing Studies
Rochester, New York

Excellence in Economic Diversification Strategies

City of Kannapolis, North Carolina
Kannapolis, North Carolina

Excellence in Community and Faith-Based Social Entrepreneurship

Center for Employment Training
San Jose, California

Excellence in Historic Preservation-Led Strategies

City of Dubuque, Iowa

Dubuque, Iowa



American Planning Association

Making Great Communities Happen