A Benchmarking and Best Practices Analysis
Executive Summary

Prepared for

ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY

August, 2016

IO·INC

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August, 2016

ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY
BENCHMARKING AND BEST PRACTICES ANALYSIS
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SECTION 1: INTRODUCTION

In the U.S. and across the world, governments are aggressively adapting or refining economic policies and strategies in their quest to elevate the standard of living and improve the quality of life for their citizens. A primary vehicle used to achieve these goals is economic development, a specialized collection of practices designed to foster a business operating environment conducive to business formation, business expansions and job creation. In an increasingly global business environment, best economic development practices must anticipate both local economic factors and also the national impact of global market forces. Economic development specialists must identify successful economic development policies, strategies and tools that address local assets and challenges but also take into account the inextricable links that tie the global and national economies. Governments employ a broad range of programs and tools to this end. One of these, development finance institutions, provides the flexibility to respond to market forces, and to support economic activity.

Development finance institutions serve as a critically important resource for catalyzing job-producing projects to benefit people and places by providing access to capital, and to stimulate and facilitate the type of private sector investment that creates permanent, private sector jobs, enhances productivity and competitiveness, and increases the tax base. They are flexible because they can be customized to support both entrepreneurial economic development strategies designed to nurture home-grown, high-growth businesses, and strategies for attracting foreign direct investment.

Many states, nations and global organizations have established development finance institutions. Through development finance institutions, the public sector is able to deliver financial tools that provide access to capital through low or lower interest loans; loan guarantees; tax exempt, private activity and conduit revenue bonds; equity investments; infrastructure funding and other forms of financing that help business enterprises remain and expand, locate or startup new ventures. Development finance institutions (DFIs) provide these resources and assistance while simultaneously safeguarding and maintaining their financial viability over the long term.

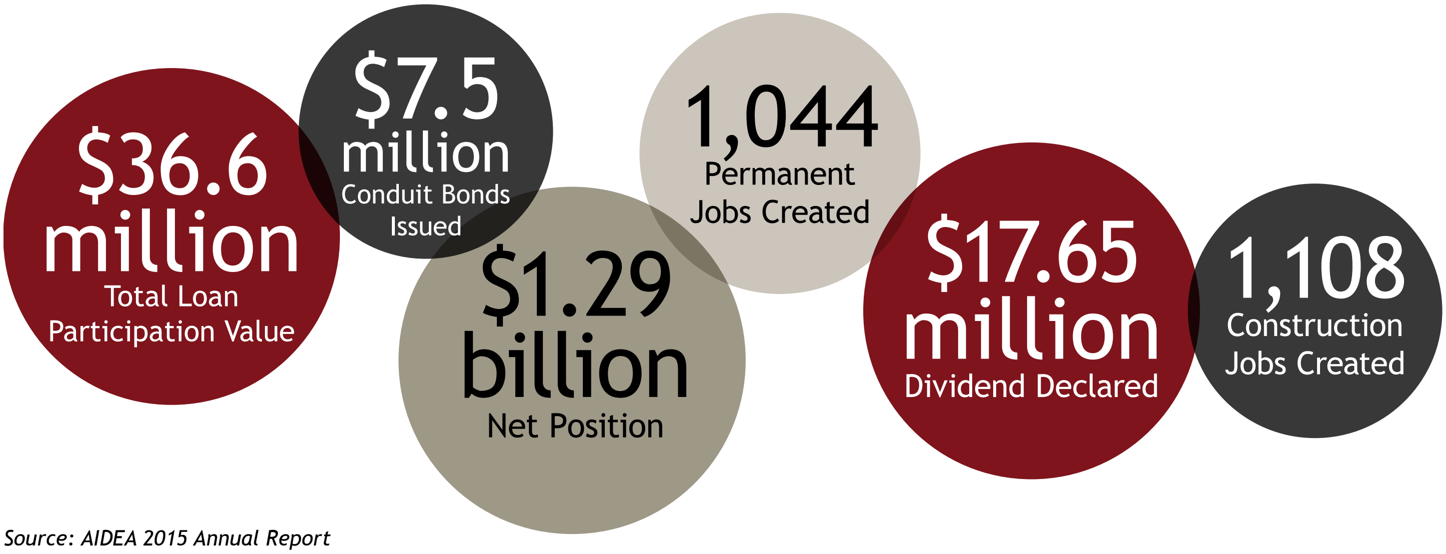
The value proposition for U.S. state and national governments: by supporting these business transactions, DFIs stimulate job creation and provide access to employment and earnings opportunities for their incumbent and future residents.

Alaska Industrial Development and Export Authority

For the State of Alaska, the Alaska Industrial Development and Export Authority (AIDEA) serves as its development finance institution. Through AIDEA, the State of Alaska is able to compete on par with other U.S. states in providing access to capital for projects that advance economic development and create jobs. AIDEA's portfolio of financial programs – its economic development and finance tool kit - stimulates and leverages private capital investment and job creation, and its performance and results validate the value of this institution.

In addition to the economic, employment and community benefits that have been generated through AIDEA's work, the institution also returns a dividend to the State of Alaska each year. Since 1995, AIDEA has declared more than $380 million in dividends that are used to fund and support other vital public goods delivered by the state to its citizens.

FIGURE 1: AIDEA PERFORMANCE RESULTS IN 2015



Source: AIDEA 2015 Annual Report

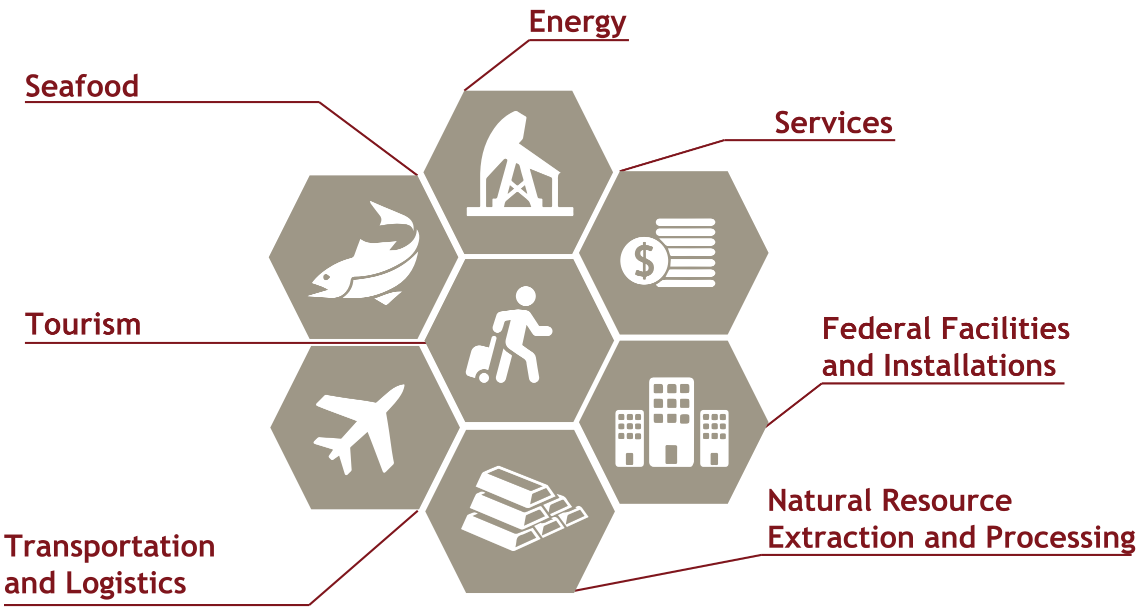
With the rapidly changing and volatile national and world economies, institutions such as AIDEA increasingly are being called upon to generate even greater results. AIDEA has a long-standing culture of organizational excellence and high levels of performance. In the Spring of 2016, AIDEA commissioned new research into benchmarks and best practices. The purpose of this endeavor is to provide a data-driven comparative basis upon which AIDEA can assess its performance and results vis-à-vis other high performing domestic and international development finance institutions.

Methodology

In consultation with the leadership team of AIDEA, domestic and international development finance institutions were selected on the basis of their recognized performance and breadth of approaches and programs in the public sector development finance arena. U.S. states and foreign nations that consistently rank among the best places for business were preliminarily selected for an initial scan. Twelve U.S. states and four nations were initially selected for consideration in this comparative analysis. A review was performed of their key performance indicators, e.g., growth in Gross Domestic Product, population and population growth, economic output and other socio-economic factors. Additionally, a review was conducted of their business climate and competitive rankings among authoritative and respected U.S. government, international, nonprofit and business and economic development institutions and sources. These reviews created a 'short list' of four state and five international development finance institutions for an in-depth comparative analysis.

In addition to the socio-economic factors that were utilized to preliminarily identify potential points of comparison, an additional screen was used: the states and nations included in the analysis needed to have base industries and other characteristics similar to the State of Alaska to ensure contextual and comparative relevance. Using AIDEA's targeted economic sectors as the basis for this comparison and point of reference, a secondary screen was utilized focusing on those states and nations whose economies were dependent in large measure on the following sectors:

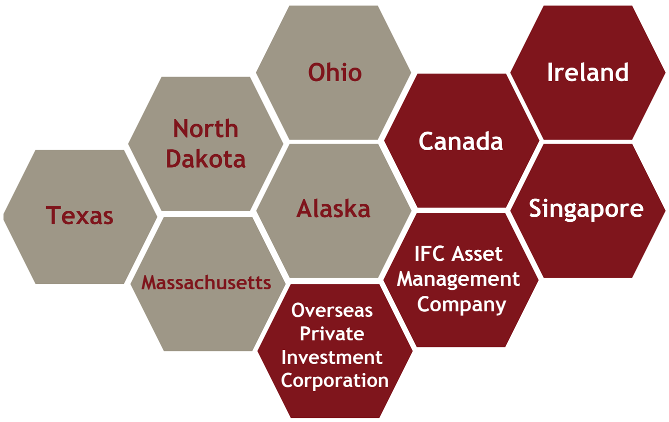
FIGURE 2: AIDEA'S TARGETED ECONOMIC SECTORS



Source: Alaska Industrial Development and Export Authority, March 2016.

A comparative matrix summarizing this data for each of the initially screened states and nations was prepared and distributed to the AIDEA Management Team for review and feedback. After further consultation with the AIDEA Management Team as well as a thorough review of similar internal analyses that had been conducted previously by AIDEA staff, nine state and international DFIs were selected for the in-depth analysis. These states and nations are:

FIGURE 3: COMPARATIVE STATE AND INTERNATIONAL MARKETS ANALYZED



Source: IO.INC, March 2016.

This Report

In addition to this brief introduction, this Executive Summary report includes the major findings of the benchmarking and best practices analysis. Presented in the Benchmarks, Best Practices and Strategic Considerations for AIDEA section is detailed information about how AIDEA stands vis-à-vis the nine development finance institutions reviewed. Additionally, specific information about best practices in the public sector development finance realm serves as the basis for recommendations for AIDEA's operations. Strategic considerations with specific initiatives intended to elevate the State of Alaska's economic development competitiveness are presented, as well as endeavors that merit both the state's and AIDEA's consideration and implementation. A separate Appendix Report contains the detailed profiles of each of the nine development finance institutions reviewed in this endeavor. The Alaska Department of Commerce, Community and Economic Development's financing and business support programs, as well as the Alaska Industrial Development Authority, also were reviewed in depth, and are included in the Appendix Report. Supplemental information also is provided with details about the methodology used in the selection of DFIs for analysis, as well as source materials for the benchmarks and best practices review.

SECTION 2: BENCHMARKS, BEST PRACTICES AND STRATEGIC CONSIDERATIONS FOR AIDEA

Introduction

For decades, U.S. state governments have developed and deployed a broad range of measures to catalyze and support private sector job growth and capital investment that provide new economic opportunities for their citizens. These measures include tax incentives, infrastructure investment, publicly-owned business and industrial parks and other policies and programs that traditionally have been viewed as capacity-building tools to enhance a market's competitiveness for business recruitment, retention, expansion, startups and the creation of jobs. As part of these capacity-building tools, many states have established public sector development finance authorities to support a broad range of needs, ranging from housing to energy to project-specific financing. The Alaska Industrial Development and Export Authority (AIDEA) is one of these public sector development finance authorities.

Understanding how state economic development policies and programs have evolved over time is helpful in framing the context in which the Alaska Industrial Development and Export Authority (AIDEA) presently operates and how it may refine its programs and operations in the future.

A Retrospective of U.S. Economic Development Practice

From the 1950s through the mid-1980s, states actively promoting economic development focused primarily on the attraction and retention of employers, often using direct incentives, tax reductions, or subsidies in the form of low-cost or free land and the provision of infrastructure to lure or keep these firms in their jurisdictions. Success in these efforts underscored the intense competition within the U.S. for jobs. The U.S.' Southeastern States benefited enormously with this approach, luring traditional industries from the Northeast into their more business-friendly, union-free and sunny climes. Utilities were dominant players during these "smokestack chasing" years of economic development, and some states also invested heavily in these business attraction efforts through tax incentives, direct grants and the building of airports, rail spurs, major arterials and even highways.

A second phase of economic development, spanning the mid-1980s through the early 2000s, is marked by the emphasis on human capital development and financial, technological and knowledge "infrastructure". Instead of focusing on providing lower-cost business operating environments, states invested in workforce development, establishing stronger linkages between

The shipyard is an AIDEA owned project, leased to Vigor Industries to operate. The 136 foot Arctic Prowler was the first freezer-longliner to be built in Alaska and operates in the Bering Sea.

their employers and training and educational institutions. They also focused on expanding their economic development toolkits by providing financing programs, including loan programs and capital availability for large, established firms as well as for entrepreneurs and small-to-medium sized firms (SMEs). Technology transfer also emerged as an important platform for economic development in this era, with economic developers and universities working side-by-side to create knowledge-based, innovation economies. Private-public partnerships for economic development, quality of life and workforce development initiatives exploded across the country during this era as well.

Since the early 2000s, with rapidly accelerating globalization and the ubiquity of technology, economic development efforts intensified their focus on human capital development, with a new concentration on quality of life and amenity strategies. The underlying theory was that human capital is highly mobile and educated, and skilled professionals and technicians will gravitate to places where they want to live instead of moving to a new locale in pursuit of a particular job. States also significantly increased their investments in entrepreneurship programs, adding incubators, accelerators and other resources to their repertoire of economic development offerings.

While the Great Recession of 2007 significantly hampered the mobility of people in the U.S., as the nation's economy continues to recover, states and regions once again are raising the stakes to combine the most aggressive, targeted incentives (i.e., deal closing funds and even more generous tax incentives) with education and training programs. Keeping, cultivating and attracting college-educated workers has become a dominant theme in many regional and state economic development programs throughout the U.S. Increasing broadband capacity and connectivity also has become a cornerstone of contemporary economic development – nationally and globally.

The Great Recession also spurred more public sector investment in economic development functions. Governors were held accountable not only for managing budgets and fiscal policy during the financial crisis; they also were compelled to provide more accountability and transparency to citizen stakeholders and rating agencies. So many of America's states were impacted adversely by the global economic crisis, that instead of slashing budgets, many governors significantly increased state expenditures for economic development.[1] From 2007 through today, many U.S. governors have totally revamped their economic development structures and strategies and are investing even more resources in these endeavors. Several governors across America have elevated and fully integrated their economic development departments into their offices; others have privatized their state agencies or have created parallel agencies to overcome obstacles associated with deeply-embedded bureaucracy. Most importantly, state economic development "report cards" have proliferated and metrics for measuring progress and success have evolved as well. We now are in the era of accountability and transparency, mirroring what corporate America and state governments have been demanded to provide by their hyper-connected shareholders and stakeholders. Many state governments also have initiated "lean government" initiatives – similar to the total quality management movement that dominated most business and many government operations in the 1980s.

As economic development policy and practice have evolved in the last 60+ years, so has the efficacy of state economic development programs. Recognizing that "one size does not fit all", still, there are basic mainstays of a state's economic development toolkit that have and will continue to be essential instruments in advancing economic growth, job creation and prosperity. Key among these tools are public sector development finance institutions that are able to significantly augment access to capital for projects and firms that have a meaningful development impact for a state and its people.

Benchmarks and Best Practices Analysis for AIDEA

The quest to benchmark performance against competitors and to identify and emulate best practices has burgeoned in the past few decades, especially with the ascension of global competition and the rise of disruptive technologies. Billions of dollars have been invested by public institutions, private firms and nonprofit organizations to improve performance by adopting benchmarks to measure success or effectiveness. Likewise, the search for best practices has led to a proliferation of both scholarly and commercial studies, many commissioned by professional and industry trade associations representing sectors across the entire spectrum of the economy. Benchmarks and best practices often are more art than science, as is evidenced by the multiple and sometimes competing theories about these topics. However, benchmarks and best practice analyses are highly valuable exercises for improving organizational performance, and virtually every organization strives to attain optimal performance.

Over the past several years, AIDEA has consistently sought to create standards of excellence both in benchmarks as well as in best practices to ensure that the agency continues to meet and exceed its goals for the State of Alaska. Through its 2009 strategic plan as well as through subsequent internal reviews and surveys, AIDEA has worked energetically to ensure that its work and results are among the best-of-the-best development finance authorities in the U.S.

The purpose of this AIDEA Benchmarks and Best Practices Analysis is to provide AIDEA with competitive intelligence derived from a data-driven comparative analysis of high performing states and

their development finance institutions (DFIs), as well as from leading international and foreign nation DFIs. The analysis of state and international development finance institutions in this report provides evidence of just how varied development finance organizations are in their approaches in delivering financial products and assessing their effectiveness and measuring results. For public sector development finance institutions, benchmarks are relatively easier to identify, as in many instances, they mirror the metrics used by conventional private sector or global development finance institutions to evaluate their performance and impact.

The U.S. and international DFIs reviewed in this report provide a sound basis for understanding and assessing how AIDEA's performance fares vis-à-vis these institutions, especially as it relates to benchmarks used to evaluate the agency's discharge of its responsibilities and to assess its accomplishments.

Best practices, however, are far more challenging to discern, as evidenced through the extensive research and review of both scholarly and authoritative private sector sources, e.g., academic and research institutions and journals, professional and trade societies, and national and international consultancies. Too frequently, best practices are 'in the eye of the beholder'. In many cases, best practices pertain to particular programs or approaches in addressing social and economic development challenges, but as the most respected private, public and academic authorities have demonstrated, one size does not fit all, creating a challenge to pinpoint exactly what constitutes a best practice.

Benchmarking Public Sector Development Finance

For purposes of this analysis, a benchmark is defined as a common standard, or set of standards (activities, achievements, etc.) that are used to compare and evaluate the offerings and competitive position of AIDEA vis-à-vis other state and foreign development finance authorities.

Standard Benchmarks

Standard benchmarks are programs and activities offered by almost all of the development finance institutions reviewed in this report. Table 1 provides a comprehensive comparative framework for understanding where AIDEA stands vis-à-vis the nine state and international DFIs that were included in this analysis.

Based on the findings of this research, AIDEA's portfolio of finance program offerings is on par with the development finance institutions included in this review. Clearly, what distinguishes AIDEA from most of these DFIs is the dividend it returns to the State of Alaska each year.

In recent years, AIDEA's authority to finance economic development projects has been significantly expanded; the organization's portfolio of finance programs provides a broad range of financing tools to support an equally broad range of asset-based financing for economic development projects. These tools include:

- Owning all or part of a project
- Owning equipment
- Co-investing in a project LLC or other legal structure
- Providing direct project financing (non-recourse)
- Providing direct loans (recourse)
- Engaging in loan participations
- Providing loan guarantees
- Issuing conduit bonds
- Issuing revenue bonds
- Providing credit enhancement
- Financing projects in designated Military Facility Zones
- Financing projects through public-private partnerships
- Supporting New Markets Tax Credit transactions (guarantees and loans)

These programs reflect the State of Alaska's commitment to strengthening its economic development competitiveness and expanding economic opportunities for Alaskans. There are some programs that presently are absent from AIDEA's program offerings, and these are presented as 'gold standard benchmarks'. While not all development finance organizations provide these tools, increasingly, several domestic and international public sector development finance institutions are beginning to implement these programs.

Gold Standard Benchmarks

As noted previously, a review of AIDEA's finance programs portfolio reveals that the institution offers many of the standard programs offered by other development finance institutions. There are some areas, however, where programs are absent from AIDEA's offerings. These programs are considered 'gold standard benchmarks' as they are present in some of the U.S.' and world's leading development finance institutions. They also support significant sources of economic growth and address gaps that have traditionally existed in public finance institutions. The gold standard benchmarks are seed, venture and equity capital; blended finance, and measuring development impact.

Seed, Venture and Equity Capital

According to the National Governors Association, increasingly, states not only are strengthening their entrepreneurship programs, they also are either directly funding or participating in funding business startups and young enterprises.[2] Entrepreneurship has been a critically important pillar of U.S. employment growth.

Every year since 1988, young enterprises – firms less than five years old – created more jobs than firms six years or older. Between 2007 and 2009, startups and young firms accounted for two-thirds of new jobs in the United States.[3] Access to capital is an impediment to entrepreneurship and young enterprises, and increasingly, states have ramped up their direct engagement in funding these individuals and firms.[4]

At present, Alaska's overall entrepreneurship offerings are nascent but beginning to garner momentum. AIDEA can accelerate entrepreneurial activity in the State of Alaska and advance the development of the state's entrepreneurship ecosystem by working with other state agencies as well as the private sector – both in Alaska as well as in other markets in the U.S. (and perhaps even internationally) – to explore the potential of creating and investing in partnerships that would provide seed, venture and equity capital to entrepreneurs and established young enterprises on a statewide basis.

The unique location of Alaska, its abundant natural resources and its relative separation from the continental U.S. indicates that certain economic development activities will take precedence. General business attraction programs will be challenging to implement in Alaska unless they are specifically targeted towards energy companies and other firms for which the state's assets are well-suited. Because entrepreneurship represents a fundamental driver for economic development, the State of Alaska will need to elevate its focus on entrepreneurship programs to cultivate and encourage startups in Alaska created and developed by Alaskan residents and newcomers as well. In the State of Alaska, AIDEA is the most qualified and best suited organization to lead this effort and establish a platform for seed, venture and equity capital investing.

Blended Finance

Increasingly used in the international development finance community, blended finance has proven to be a highly effective means to increase the availability of capital to support social and economic development initiatives. In developing, emerging and frontier markets, blended finance has enabled the world's largest development finance institutions to leverage their own resources and mitigate risks for private sector and philanthropic investors.[5]

This model has relevance to American development finance organizations, including AIDEA. Alaska is a great frontier in many respects; much of the state's majestic land is undeveloped and will remain that way. In other cases, Alaska and AIDEA have been challenged to provide basic infrastructure to small, remote towns where people reside and where basic infrastructure and decent jobs are needed. The provision of basic infrastructure is a fundamental goal for global development finance institutions, and is just as important to Alaska.

On its own, the private sector is not always eager to embrace investments in these types of projects. States therefore are hard-pressed to advance projects that would have an important impact on creating and expanding economic opportunities and enhancing the quality of life for their citizens. Because of its successful track record, AIDEA is well positioned to examine the potential of creating a blended finance program that would offer reasonable returns on investment, mitigate perceived (and misperceived risks) and a stable investment environment for private sector or philanthropic capital. By blending these sources of capital – public, private and philanthropic – AIDEA can leverage larger amounts of non-government finance to support critical infrastructure and job-generating projects. These opportunities merit further examination, and working with the oil and mining industry firms and their foundations may prove to be a beneficial starting point.

Measuring Development Impact

Increasingly, U.S. states are using analytics and other data tools to more effectively manage their programs and evaluate results. Historically, economic development agencies in the U.S. have measured their progress in terms of jobs created or retained.[6] Those measures are important, but do not provide for a full appreciation of the broader benefits of state economic development efforts. More and more states are adopting significantly expanded metrics and indicators to assess their economic development program results and impact.

U.S. and international DFIs use development impact as the primary basis for evaluating their economic development initiatives. Development impact may entail different dimensions for each institution, but in all cases, they are far broader than the number of jobs created or retained. In many cases, AIDEA's investments and projects have facilitated the delivery of essential infrastructure to Alaskans; in other cases, the agency's investments have provided equally important facilities and services that allow Alaska to compete in the domestic and global economies. The impact of these projects and investments goes well beyond any jobs that may have been generated as a result. In AIDEA's 2009 strategic plan, Investing in Alaskans, it was recommended that the agency should adopt "sophisticated metrics to include environmental, social, cultural and other benchmarks in addition to traditional metrics of investment, jobs and income".[7]

AIDEA and the State of Alaska would be well-served to expand how the agency's work is measured and establish metrics and indicators that more accurately reflect the breadth of the organization's positive impact on Alaska's people and economy.

TABLE 1: BENCHMARKS FOR DEVELOPMENT FINANCE INSTITUTIONS								
	ALASKA		MASSACHUSETTS			NORTH DAKOTA		
DFI Benchmarks	Alaska Department of Commerce, Community and Economic Development	AIDEA	Massachusetts Executive Office of Housing and Economic Development	MassDevelopment	Massachusetts Life Sciences Center	North Dakota Public Finance Authority	North Dakota Department of Commerce	Bank of North Dakota
State or National Economic Development Strategy	NO	NO	YES	YES	YES	YES	YES	YES
Agency Strategy/Plan	NO	YES	YES	YES	YES	YES	YES	YES
DFI Economic Development Programs/Tool Kit	YES	YES	YES	YES	•	YES	YES	YES
◆ Loan Programs	YES	YES	YES	YES	NO	NO	YES	YES
» Direct	YES	NO	YES	YES	•	•	YES	YES
» Participation	•	YES	•	YES	•	•	NO	YES
» Guarantees	•	YES	•	YES	•	•	NO	YES
» Refinancing	•	YES	•	YES	•	•	NO	YES
◆ Bonds	•	YES	•	YES	NO	YES	•	NO
» Conduit bonds	•	YES	•	YES	•	YES	•	•
» GO/Revenue bonds	•	YES	•	YES	•	YES	•	•
◆ Credit Enhancement	•	YES	•	YES	•	YES	•	•
◆ Export Financing	•	YES	•	YES	•	•	•	YES
◆ Infrastructure Financing	•	YES	YES	YES	•	YES	YES	NO
◆ New Markets Tax Credits	•	YES	•	YES	•	YES	YES	•
◆ Investment/Development Projects	NO	YES	NO	YES	•	•	•	NO
◆ Build/Own Physical Assets	•	YES	•	YES	•	NO	•	•
◆ Master Developer of Large-Scale and Mixed Use Projects	•	YES	•	YES	•	•	•	•
◆ DFI as developer/owner of real estate and redevelopment projects	•	YES	•	YES	•	•	•	•
◆ Developer/owner of U.S. Government and Military Facilities	•	YES	•	YES	•	•	•	•
◆ Private-Public Partnerships	NO	YES	YES	YES	YES	•	YES	YES
Economic Development Incentives	NO	NO	YES	YES	YES	•	YES	•
◆ Deal Closing Fund	NO	NO	NO	•	NO	•	NO	•
◆ Grants	NO	NO	YES	YES	YES	•	YES	•
◆ Tax Incentives/Concessions	NO	NO	YES	YES	YES	•	YES	•
◆ Tax Increment Financing	NO	NO	YES	YES	•	•	YES	•
◆ Job Training - Grants and Loans	YES	NO	YES	YES	YES	•	YES	•
Entrepreneurship/Innovation	NO	NO	YES	NO	YES	•	YES	YES
◆ State Angel Fund - Tax Credits and/or Investments	NO	NO	YES	•	•	•	YES	YES
◆ Seed Capital Grants, Loans and Tax Credits	NO	NO	YES	NO	YES	•	YES	YES
◆ Venture Capital Grants and Loans	NO	NO	YES	•	YES	•	YES	YES
◆ Fund to Fund	NO	NO	•	•	NO	•	•	•
◆ R&D Grants and/or Tax Credits	NO	NO	YES	•	YES	•	YES	•
◆ SSBCI	NO	NO	YES	•	•	•	YES	•
Technical Assistance	YES	YES	YES	YES	YES	•	YES	•
Metrics	YES	YES	YES	YES	YES	YES	YES	YES
◆ # and value of loans funded	YES	YES	•	YES	•	YES	YES	YES
◆ # and value of grants awarded	•	•	•	YES	YES	•	YES	•
◆ Value of net assets under control/ management	•	YES	•	YES	•	•	•	YES
◆ Value of funds	•	YES	•	YES	•	•	•	YES
◆ Jobs generated/retained	YES	YES	YES	YES	YES	•	YES	YES
◆ Construction jobs	YES	YES	YES	NO	NO	NO	YES	YES
◆ Permanent jobs	YES	YES	YES	YES	YES	YES	YES	YES
◆ Salaries/benefits	YES	NO	YES	YES	YES	YES	YES	YES
◆ Development impact goals	NO	NO	YES	YES	NO	YES	NO	NO
◆ Required to grow net position	•	YES	•	YES	•	•	•	YES
◆ ROI goals/targets	•	YES	•	YES	•	•	•	YES
◆ Growth in portfolio	•	NO	•	YES	•	•	•	YES
◆ Loans actually disbursed	NO	NO	YES	YES	•	•	•	YES
◆ Economic impact analyses	NO	NO	YES	YES	YES	YES	YES	YES
◆ Dividend	•	YES	•	YES	•	•	•	NO

TABLE 1: BENCHMARKS FOR DEVELOPMENT FINANCE INSTITUTIONS

• = N/A

OHIO		TEXAS		INTERNATIONAL					
Ohio Development Services Agency	Port of Cleveland	Texas Public Finance Authority	Texas Economic Development Bank	Canada	Ireland	Singapore	IFC Asset Management Company	OPIC (Overseas Private Investment Corporation)	DFI Benchmarks
YES	YES	NO	NO	YES	YES	YES	YES	YES	**State or National Economic Development Strategy**
YES	YES	YES	YES	YES	YES	YES	YES	YES	**Agency Strategy/Plan**
YES	YES	YES	YES	YES	YES	YES	YES	YES	**DFI Economic Development Programs/Tool Kit**
YES	YES		YES	YES	YES	YES	NO	YES	◆ Loan Programs
YES	YES		YES	YES	YES	YES	NO	YES	» Direct
YES	YES		YES	YES	YES	NO	NO	NO	» Participation
YES	YES		YES	YES	YES	YES	NO	NO	» Guarantees
YES	NO	YES	YES	NO	YES	YES	NO	NO	» Refinancing
YES	YES	YES	YES	YES	YES	YES	NO	NO	◆ Bonds
YES	YES	YES	NO	YES	YES	YES	NO	YES	» Conduit bonds
YES	YES	YES	YES	YES	YES	YES	YES	YES	» GO/Revenue bonds
YES	NO	YES	YES	YES	YES	YES	•	•	◆ Credit Enhancement
YES	•	•	•	YES	YES	YES	NO	YES	◆ Export Financing
YES	YES	YES	YES	NO	YES	YES	•	YES	◆ Infrastructure Financing
NO	YES	NO	NO	•	•	•	•	•	◆ New Markets Tax Credits
NO	YES	NO	Financing Only	YES	YES	YES	•	YES	◆ Investment/Development Projects
•	YES	NO	NO	NO	YES	YES	•	Financing Only	◆ Build/Own Physical Assets
•	YES	NO	NO	YES	YES	YES	•	•	◆ Master Developer of Large-Scale and Mixed Use Projects
•	YES	NO	NO	YES	YES	YES	•	•	◆ DFI as developer/owner of real estate and redevelopment projects
•	NO	NO	NO	YES	YES	YES	•	•	◆ Developer/owner of U.S. Government and Military Facilities
YES	YES	YES	YES	YES	YES	YES	YES	YES	◆ Private-Public Partnerships
YES	YES	•	YES	YES	YES	YES	YES	YES	**Economic Development Incentives**
YES	NO	•	YES	YES	YES	YES	•	•	◆ Deal Closing Fund
YES	YES	•	YES	YES	YES	YES	•	•	◆ Grants
YES	YES	•	YES	YES	YES	YES	YES	YES	◆ Tax Incentives/Concessions
YES	YES	•	YES	•	•	•	•	•	◆ Tax Increment Financing
YES	•	•	YES	YES	YES	YES	•	•	◆ Job Training - Grants and Loans
YES	•	•	YES	YES	YES	YES	YES	YES	**Entrepreneurship/Innovation**
YES	•	•	YES	YES	YES	YES	•	•	◆ State Angel Fund - Tax Credits and/or Investments
YES	•	•	YES	YES	YES	YES	YES	YES	◆ Seed Capital Grants, Loans and Tax Credits
YES	•	•	YES	YES	YES	YES	YES	YES	◆ Venture Capital Grants and Loans
•	•	•	•	•	•	•	YES	YES	◆ Fund to Fund
YES	•	•	YES	YES	YES	YES	YES	YES	◆ R&D Grants and/or Tax Credits
YES	•	•	YES	•	•	•	•	•	◆ SSBCI
YES	YES	YES	YES	YES	YES	YES	YES	YES	**Technical Assistance**
YES	YES	YES	YES	YES	YES	YES	YES	YES	**Metrics**
YES	YES	YES	YES	YES	YES	YES	YES	YES	◆ # and value of loans funded
YES	YES	•	YES	YES	YES	YES	YES	YES	◆ # and value of grants awarded
•	•	•	•	YES	YES	YES	YES	YES	◆ Value of net assets under control/management
•	•	•	•	YES	YES	YES	YES	YES	◆ Value of funds
YES	YES	YES	YES	YES	YES	YES	•	YES	◆ Jobs generated/retained
YES	YES	YES	YES	YES	YES	YES	•	NO	◆ Construction jobs
YES	YES	YES	YES	YES	YES	YES	•	YES	◆ Permanent jobs
YES	YES	YES	YES	YES	NO	NO	•	YES	◆ Salaries/benefits
YES	YES	YES	YES	YES	YES	YES	YES	YES	◆ Development impact goals
•	NO	•	•	YES	YES	YES	YES	YES	◆ Required to grow net position
•	YES	•	YES	YES	YES	YES	YES	YES	◆ ROI goals/targets
•	NO	•	•	NO	NO	NO	YES	NO	◆ Growth in portfolio
YES	YES	YES	YES	YES	YES	YES	•	YES	◆ Loans actually disbursed
YES	YES	YES	YES	YES	YES	YES	YES	YES	◆ Economic impact analyses
YES	•	NO	•	YES	YES	YES	•	YES	◆ Dividend

Best Practices in Public Sector Development Finance

A best practice encompasses a set of methods, guidelines and ethics that are widely acknowledged and accepted within a particular industry or profession as proven techniques for achieving optimum results. Public sector development finance integrates both public and private sector methods that have been universally acknowledged and accepted as best practices. In private sector finance, best practices entail a broad range of functional activity, including financial monitoring and reporting; compliance, risk management and auditing; data analytics; market segmentation; mix of loan portfolios; performance indicators and incentives; customer service satisfaction; customer acquisition costs, etc. In public sector development finance institutions, many of these best practices have been integrated into their operations, as they are proven methods that work in the world of finance.

It is important to underscore, however, that public sector development finance operates in a vastly different realm than private sector finance. Development finance in the public sector is public purpose and mission driven, and its underlying premise is improving the social and economic well-being of a population by investing in projects and firms that provide essential infrastructure and create jobs. This core value of public purpose and mission distinguishes public sector development finance from all private sector financial activity, where profit is the fundamental goal.

Summary of IO.INC's Best Practices Review

A broad review of best practices literature on domestic and international public sector development finance yielded an expansive and divergent body of information. Global organizations such as The World Bank, Organization for Economic Cooperation and Development, and World Economic Forum have published volumes about development finance across the world, with much of this information focused on best practices in environmental and sustainability goals and lending. The Inter-American Development Bank conducted a best practices analysis of development finance institutions that conduct business in Latin America and the Caribbean, and proffers some valuable best practices that have applicability to AIDEA and other U.S. public sector development finance organizations.

A review of the Council of Development Finance Agencies' current papers and reports, including the CEO's recently-published book, provides examples of how certain state and regional economic development entities execute their respective development finance responsibilities and the importance of the development finance "toolbox". Similarly, a review of the International Economic Development Council's work on public sector economic development programs and incentives provides information about the overall tools used by government and nonprofit economic development organizations in fulfilling their responsibilities. A review of scholarly articles, summarizing analyses of data and results from both international and U.S. development finance institutions, was part of this inquiry as well.

A list of the sources used for this analysis is provided in the Appendix Report, which also includes detailed profiles of each of the domestic and international DFIs examined in this review. These sources are in addition to the scores of reports, studies and web-based information used and cited in the research and analysis of the development finance institutions included in this analysis. Also as part of this best practices analysis, a review of AIDEA's strategic plan and its numerous internally-generated best practice surveys was conducted as well.

AIDEA's Best Practices Surveys

Beginning in 2008 with the Alaska Department of Commerce, Community, and Economic Development's Legacy Project, AIDEA has actively conducted significant diligence in identifying and tracking best practices for development finance institutions. Through this and subsequent initiatives, several public sector development finance organizations have been analyzed as AIDEA has strived to ensure that it was offering and delivering 'state of the art' financing tools. The development finance institutions (DFIs) of Kentucky, Arkansas, New Jersey, New York, Massachusetts and several others were examined in-depth by AIDEA staff as well as by the consulting team hired in 2008 to develop the agency's strategic plan. These analyses entailed interviews with the representatives of some of these institutions as well as a review of their annual reports, financial records, progress reports, and websites.

A loan participation with Wells Fargo Bank for $13 million to construct 1,100 feet of moorage, 135 feet of floating moorage, and upland development to accommodate the cruise ships and their passengers.

In AIDEA's 2009 strategic plan, a review of best practices for DFIs identified four primary best practices for these institutions:

- The need to identify key traded sectors (export-based industries) and the formation of clusters;
- The importance of having a theme-based vision, mission, goals and strategies;
- Having the ability to deliver an expansive toolkit of financing tools;
- The importance of having a broader set of performance metrics.

AIDEA staff also conducted an internally-driven review of development finance best practices in November 2014. The staff concluded that the primary areas of distinction between the public development finance organizations reviewed was not in the range of tools they deployed, but how the tools are aligned with the needs of their respective economies. Much of this analysis focused on the mechanics of development finance, and provided valuable information in gauging if AIDEA's tool kit was comparable to other public sector development finance organizations.

All of this information has been taken into consideration and substantial aspects have been integrated into this current

A loan participation with Wells Fargo Bank for the construction of a new hotel in Anchorage, owned and operated by NANA. The total loan was approximately $14 million.

benchmarks and best practices analysis. The focus of this best practices review is not on the technical aspects of the development finance tool kit per se, but rather on the quality management practices and other critical operational dimensions of public sector development finance institutions – the elements that contribute to organizational success and sustainability.

A Framework for Best Practices in Development Finance Institutions

This review of best practices in public sector development finance institutions has been organized into three functional areas:

- Strategic Approach: Encompasses the underlayment of public purpose and mission of the organization. The strategic approach essentially is the cornerstone of public sector development finance institutions, and provides the framework for an organization's existence and why and how it conducts business.
- Internal Organization: Encompasses the internal capabilities and activities of the organization and how they align with its purpose and mission and execute and deliver on its promise.
- Operational Approach: Encompasses the product and service offerings as well as delivery mechanisms/techniques for the intended clients the organization is in business to serve.

These functional areas encompass all facets of a DFI's operations, from its structure to its program execution. Many of the national and global sources previously noted utilize a similar approach in categorizing best practices for these types of institutions.

Best Practices in Strategic Approach

There are several areas of best practices within the strategic approach:

- A coherent, fully integrated and well-developed strategy for the organization aligned with the state's economic development strategic plan.
- Clearly articulated vision, mission, goals, and targeted sectors/populations to be served, all of which drive the operations of the organization.
- Statement of guiding principles to embody what the organization stands for and how it will operate, e.g., values, ethics, transparency, spirit of partnership and service, etc.
- Targeting and selection of sectors and clients.
- Clearly defined metrics and indicators to measure performance and outcomes over time.
- Strong linkages between the financial and social and economic development impact goals of the organization.
- Commitment to leveraging resources and the achievement of agency goals through private-public partnerships.

TABLE 2: BEST PRACTICES FOR DFIs – STRATEGIC APPROACH	
Best Practice in Strategic Approach	**What it Entails**
Executing on a Strategy	Research has shown that many public sector development finance institutions have formulated overarching strategies to meet their statutory mandates and goals. These strategies typically define and articulate the organization's approach in terms of public purpose; vision and mission; targeted sectors and population(s) to be served; financial products and services offered, and metrics used to assess performance. The review of international development finance institutions – both state-owned and NGOs – shows that their clearly defined strategies seek to elevate the standard of living for the populations they serve; many of them focus on lifting people out of poverty. In the domestic U.S. DFIs reviewed in this report, almost all of these organizations align their strategies and programs with those of their state's economic development strategic plan. All of the DFIs reviewed target their program offerings toward specific sectors, and finance programs are geared to supporting projects and firms that provide essential infrastructure, catalyze business growth and private capital investment, and create new or retain existing jobs. Many of these institutions focus on supporting projects or firms that generate "quality" jobs, e.g., higher paying and higher-value-added jobs within their targeted economic sectors. In several DFIs, development finance activity is focused on supporting the recruitment of relocating firms as well as on business startups, expansions and SMEs.
Targeting and Selecting Clients	The targeting and selection of clients is another area of best practices in the strategic approach of public sector development finance organizations. Many of these institutions select clients on the basis of strategic factors (e.g., sector focus) and operational criteria (e.g., the financial soundness and credit-worthiness of the project). Internationally, there is a major trend toward shifting the focus of client targeting and selection to microfinance and other specific market niches, such as green lending. Domestically, the institutions included in this analysis tend to maintain focus on their state's designated targeted industry sectors, but also utilize their financial resources and tools to capitalize on emerging opportunities that have the promise of creating jobs or fulfilling another essential need for the state. Across the board, there is a tendency to select and support projects that present the least amount of risk.
Equity Investing	Several of the development finance institutions examined in this review have integrated equity investing into their strategic approaches. This trend has accelerated in both domestic and international development finance institutions, given the impact and importance of entrepreneurship to economic growth and job creation. Equity investing is viewed as an important vehicle to leverage scarce financial resources, advance the institution's public purpose and mission, distribute risk and more effectively meet the needs of the targeted sectors and populations to be served. Because equity investments entail higher risk, best practices in risk management are especially critical to appropriately administer this type of financing within public sector development finance organizations.
Private-Public Partnerships	Another best practice in the strategic approach of development finance institutions is the cultivation and utilization of private-public partnerships. Across the U.S. and the world, private-public partnerships (P3s) have been adopted as a best practice to achieve overall financial, social and economic development goals. Most of the development finance institutions reviewed have strong P3s, many of which have been developed to leverage funds, attract more capital for specific high-impact development projects, build more credibility and to share and exchange knowledge and learnings.

Sources: Refer to Appendix 2 in Appendix Report.

AIDEA Board members discussing a proposed project.

An AIDEA-owned gas utility supplying natural gas to Fairbanks.

Best Practices in Internal Operations

Best practices for the internal operations of DFIs are numerous, and it is in this area of organizational management and execution where they mirror (in part) many such practices of private sector finance.

- Data-based decision-making and performance evaluations.
- Deeply embedded risk management policies and consistent application of these policies to managing the agency's portfolio and activities.
- Professional loan officers/investment counselors who have expertise, knowledge and experience in specific sectors that are being served through the DFI.
- Performance-based incentives to balance the achievement of both financial and social/economic development goals.
- Tracking of growth in the agency's portfolio.

The AIDEA board and staff members made site visits to several AIDEA-owned projects in Southeast Alaska, including the Skagway Ore Terminal.

TABLE 3: BEST PRACTICES FOR DFIs – INTERNAL OPERATIONS

Best Practice in Internal Operations	What it Entails
Data-Based Decision Making and Performance Evaluations	Today, Big Data and predictive analytics are used by private firms and public sector organizations to understand trends, predict consumer/client behavior, keenly target the demand for goods and services, and to garner greater understanding of competitive opportunities and challenges. While the adoption of Big Data and predictive analytics is only beginning to occur within governmental bodies, these techniques increasingly are viewed as important to the overall effectiveness of the public sector. Many cities across America use these techniques in their public safety and law enforcement arenas. New York City innovated CompStat – a decision making tool that uses Big Data and predictive analytics to discern criminal activity, get ahead of where the problems were and manage the most efficient use of law enforcement personnel. Some of these techniques also are being used widely by higher education institutions to predict and help ensure that students successfully complete college. At the state level, some governments are integrating these technologies into their capabilities for decision making, most notably for law enforcement, disaster management and transportation planning. In development finance institutions, data-based decision making is especially important given the inherent risk in any company or project financing. Using information as the basis for decisions about strategic approach, internal operations, organizational strategies, lending policies and performance evaluations for both the enterprise and its people has rapidly emerged as a best practice in the last 10 years. This best practice essentially mitigates the prospects of having publicly-financed projects supported for political instead of meritorious reasons.
Risk Management	Risk management is a critical best practice and many development finance organizations have instituted rigorous measures to ensure that risk is mitigated and managed appropriately. Risk management planning entails the process of deciding and documenting how to conduct such activities as risk identification, analysis, response planning and monitoring, controlling and reporting. In the development finance institutions reviewed, risk management has become embedded in all aspects of the operations, and is driven primarily by their boards of directors. In many of the institutions, risk management policy and practice fully embrace the importance of understanding, assessing and planning for risk mitigation in terms of the environmental impact of the projects and firms that they support, from an investment standpoint as well as from the technical assistance they may render to these projects. An essential aspect of risk management is compliance, which is part of the governance, risk management and compliance (GRC) discipline for all organizations. Many statutorily-mandated compliance regulations are in place to ensure that organizations operate fairly, ethically and within the intent and requirements of laws. Another important aspect of risk management includes both internal and independent audits.

TABLE 3: BEST PRACTICES FOR DFIs – INTERNAL OPERATIONS	
Best Practice in Internal Operations	**What it Entails**
Sector Specialization	Best practices in internal operations also encompass the technical expertise of staff, efficacy in terms of targeting and delivery of products and services, performance incentives and internal management practices. Many of the development finance organizations reviewed focused intently on having highly skilled and specialized staff to align with the sectors and populations that they serve, e.g., sector specialists/experts with significant market knowledge of the industries the agency serves. Different economic/industry sectors and different financial products and structures often require different skill sets, knowledge and experience. In some cases, development finance institutions have centralized their entire financial products operations with minimal or no sector specialization. Through the reports and studies reviewed, an important indicator of internal operational effectiveness was client satisfaction in dealing with the organization, and with the technical expertise of the staff. Some of the organizations incorporated sector experts into their overall financial lending staff, which appeared to bring about higher levels of client satisfaction. Having highly specialized experts in sectors rather than in particular lending categories is becoming a widely-accepted best practice in public sector development finance organizations, domestically and internationally.
Aligning Financial Goals with Development Goals	Another important area of best practice within the internal operations of these institutions is the integration of the social and economic development objectives of the organization into its financial goals so that they are aligned and mutually reinforcing. Some development finance agencies accomplish this by incorporating development impact goals into the performance evaluation criteria for their loan and investment officers, where they are measured not just on loan or transaction volume, but also on such factors as elevating the personal per capita income or contribution to the economic development "additionality" (e.g., impact on the state's or nation's GDP). In some development finance institutions (domestic and international), reports focused on total loan portfolio or total numbers of transactions and did not always relate overall development impact goals and outcomes with these transactions, other than basic jobs created/retained measures. Some of the development finance institutions have moved toward a more holistic approach in evaluating their investment officers and are awarding performance-based incentives, where evaluation criteria emphasize development goals as much as financial goals.

Sources: Refer to Appendix 2 in Appendix Report.

Best Practices in Operational Approach

Operational best practices focus primarily on the overall efficacy and effectiveness of an organization and entail:

- Performance standards for all client contracts to ensure that the financial agreement and social and economic development goals are met.
- Frequent and consistent reporting of results – quarterly, semi-annually and annually.
- Focus of overseers on social and economic development achievements, and not just financial indicators, e.g., ROI.
- Leveraging financial resources with partners.
- Measuring loan proceeds disbursed and not just inputs, e.g., loans reviewed, loans approved.

AIDEA's first loan participation for an energy efficiency project, at the Alaska Pacific University done in partnership with Northrim Bank.

Ground breaking for a loan participation for a new bingo hall in Anchorage.

TABLE 4: BEST PRACTICES FOR DFIs - OPERATIONAL APPROACH	
Best Practice in Operational Approach	**What it Entails**
Performance Contracts with Clients	This analysis found that development finance institutions – both domestic and international – depend upon performance contracts with their clients to ensure that goals are being met. Contract requirements include conventional performance standards, e.g., loan repayments, collateral, interest rates, insurance, surety bonds, etc., but increasingly, many require that certain social and economic development goals are met as well. In addition, some of these institutions require their clients to mention the source of their project financing in their own annual reports and to provide testimonials for the institution's annual report. In many instances, where the emphasis is on portfolio growth, one best practice that has emerged is reporting on the contribution to portfolio growth that each project makes (in addition to the achievement of social and economic development goals).
Equity Investing	The review also found that asset-based loans dominate the activity of public sector development finance organizations. While many of these entities offer a wide range of financial instruments, and increasingly, such services as technical assistance, more traditional loan structures constitute the majority of these institutions' work. In some of the international organizations, loans represented 88 percent of all activity. In some of the U.S. based public sector development finance agencies, lending also accounted for the majority of their activity. While equity investments represent a nominal percentage of public sector development finance activity (except for The World Bank Group's International Finance Corporation), they are viewed as a vehicle to achieve higher portfolio growth and to better align capital with social and economic development goals as well as client needs. Some public sector development finance organizations are increasing their stakes in equity investment, and they are managing through some of the challenges that come with this shift. Equity funds in development finance organizations are less abundant than the capital that is available through their conventional lending programs; equity investing and funds also present the potential for greater risk. Increasingly however, equity funds are viewed as a more aggressive – within acceptable parameters – approach to portfolio growth and the attainment of social and economic development goals. Some of these institutions have structured their equity investing to provide the necessary infusion of equity capital into the client's firm or project, which provides the assurance of long-term committed capital. These equity finance deals are structured to also limit returns by establishing caps and floors and to put into place an exit strategy that is acceptable for all parties.
Reporting and Monitoring Results	Another important area of best practices within the organizational approach is found in the reporting and monitoring of results, a best practice in which AIDEA out-performs all other development finance organizations. All of the development finance institutions examined in this analysis employ periodic reporting to monitor operations for financial and operational performance, as well as the social and economic development impact of their activities. Financial monitoring and reporting typically is presented in quarterly and annual financial reports. However, many of these institutions are challenged with benchmarking and measuring development indicators, as the focus of their oversight is on operational and financial parameters rather than on the inclusion of social and economic development goals as primary achievements. Reporting requirements increasingly are including meaningful data on the social and economic development impact of their activity. As well, many development finance organizations have found that strategically aligning with external partners is a best practice in terms of leveraging financial resources in meeting the broader goals of the organization. One trend that has emerged in terms of organizational approach best practices is the measurement of investment (lending) volume on the basis of disbursed amounts instead of approved amounts of loans, combined with measuring the growth of the institution's portfolio (by volume and number). This blended approach of measuring, monitoring and reporting results emphasizes the importance of overall portfolio growth as well as the importance of the social and economic development outcomes of the institution's work.
Tracking Loan Proceeds Disbursed	Another best practice is to track loan proceeds actually disbursed instead of loans reviewed and approved, which provides a more accurate assessment of lending activity. The value of this best practice is that it enables the institution to assess the efficacy of its lending practices and procedures. One of the metrics used in this regard is the actual closing and disbursing of loan proceeds.

Sources: Refer to Appendix 2 in Appendix Report.

A supersized LNG tanker was being tested in Alaska to see if it would operate efficiently and how it would deal with Alaska's road system. AIDEA staff and vendor representatives were on hand for the test (Interior Energy Project).

A tourist entertainment facility in Anchorage financed with AIDEA participation.

Enhancing AIDEA's Operations

Already, AIDEA is an exemplar for many best practices in public sector development finance. Among the agency's best practices:

Strategic Approach:
- Organizational strategic plan with defined targeted sectors.
- Clearly articulated vision, mission and goals.
- Payment of dividend to Alaskans.

Internal Operations:
- Improving/strengthening the checks and balances of the project/loan review process.
- Separating public policy-driven projects from mission-driven projects.
- Transparency and accountability documented by frequent reporting with consistent metrics.
- Formal loan/project evaluation and review processes in compliance with established, legislatively-approved and Board approved policies and procedures.
- Lean organization with 15 "front office" professionals.
- Cost efficiencies via shared services with a sister agency, the Alaska Energy Authority.

Operational Approach:
- Frequent and consistent reporting of results – monthly, quarterly and annually.

This best practices review found that AIDEA ranks among the best-of-the-best DFIs for the quality, frequency and transparency of its reporting. The agency also has developed a system and process through which projects are evaluated on their merits and value-add to the State of Alaska and its citizens, and not on politics. AIDEA's operations are carried out in alignment with its own organizational strategic plan, which has served the agency well. AIDEA's strategic plan has clearly articulated goals, guiding principles, defined metrics, and a commitment to private public partnerships. There are some areas of best practice, however, that should be further explored and integrated into AIDEA's operations. They are presented within the Best Practices framework cited previously in this section.

Best Practices Recommendations for AIDEA in Strategic Approach

As previously noted, AIDEA exemplifies many of the best practices in its strategic approach. There are two best practices that the institution should consider integrating into its operations:

Targeting and selection of sectors and clients: AIDEA works with sectors and clients that have a presence in the State of Alaska, assisting them with their investments and projects. In the absence of a statewide economic development strategic plan as well as relative lackluster efforts in domestic and international business attraction on the part of the state, AIDEA's universe of projects is limited. Alaska needs to have a realistic but ambitious plan to not only work with existing businesses – a key area in which AIDEA performs admirably – but also to germinate startups and aggressively pursue business attraction from both the continental U.S. and other nations. The State of Alaska's abundance of natural and man-made assets position the state with some extraordinary opportunities to present its distinctive business locations advantages to firms in targeted economic sectors that would benefit from siting a facility in the state. It becomes even more essential that the state develops an economic development strategy and funds its execution at a level that will assure successful results.

Strong linkages between the financial and social and economic development impact goals of the organization: Alaska's economic development metrics are rooted in 20th century values and practices. The state measures jobs created and jobs retained. These and other ancillary metrics in no way fully portray the far-reaching, positive impact of AIDEA's work. Further, the numeric reporting of AIDEA (and other Alaska economic development agencies) precludes the relationship and tie into the social and economic development impact that the agency's work has, which is far beyond the value of the financial transactions it approves. AIDEA should emulate the development impact metrics of Texas, Ohio, Canada, Ireland, Singapore and the International Finance Corporation Asset Management Company and integrate similar metrics into its own planning and reporting.

Best Practices Recommendations for AIDEA in Internal Operations

AIDEA's internal operations reflect many of these best practices, including data-based decision-making and evaluations, as well as highly-developed and sound risk management policies and practices. There are best practices that merit consideration for adoption into AIDEA's internal operations:

Performance-based incentives to balance the achievement of both financial and social/economic development goals: To further underscore the importance of measuring development impact of the agency's work, AIDEA should consider expanding its present performance evaluation criteria to tie its financial goals and targets to the overall social and economic development goals that are at the very core of the agency's existence. This could be effectuated once AIDEA has adopted development impact standards and metrics.

Tracking of growth in the agency's portfolio: Measuring and monitoring portfolio growth instead of solely tracking and reporting numbers in terms of inputs, e.g., number of loans reviewed, approved, etc. is considered a best practice among the international DFIs included in this review. Many of the state DFIs track inputs, although increasingly, their annual reports include several prisms of their portfolio's performance, typically striated across lending segments, e.g., Texas, MassDevelopment.

Portfolio growth metrics help to ensure that the DFI's funding base is growing to support the achievement of its social and economic development goals, especially when inputs are tied to outputs. Tracking portfolio growth also helps to offset the bias toward financing projects that present the least amount of risk and reduces the propensity for using the development finance institution's financing as a substitute for funds that could otherwise be obtained from conventional and other sources. Different studies found that absent this measurement, many DFIs "cherry pick" or cull specific projects that present the minimum amount of risk and in many cases, could easily find financing through other sources.

The IFC Asset Management Company (IFC-AMC) is cited frequently for its best practice in measuring portfolio growth. The DFI began by defining the relevant portfolio it targeted for growth, setting clear baseline data. It also established specific targets for the individual funds as well as overall corporate goals for portfolio growth.[8] IFC-AMC found that using this approach instead of self-selecting a list of funds or projects was a more effective approach to achieving its development goals. The primary metric the DFI uses to measure portfolio growth is year-over-year growth, taking into account and adjusting for world events that impact its portfolio.[9]

Best Practices Recommendations for AIDEA in Operational Approach

From an operational approach standpoint, AIDEA does exemplify many of the best practices identified in this analysis. Among all DFIs reviewed, AIDEA is the best-of-the-best in terms of its reporting. The agency provides frequent, consistent and transparent reports on a quarterly, semi-annual and annual basis. No other DFI included in this review offered the same level of ease of access to current information, nor did they offer the consistency of data and metrics to accommodate an analysis over extended time horizons. In the best practice area of leveraging financial resources with partners, AIDEA does have strong relationships with Alaska banks who are partners in the agency's loan participations. There are other best practices that merit consideration for adoption into AIDEA's operational approach:

Focus of AIDEA's Board, Governor and Legislature on Development Impacts: As has been underscored throughout this report, placing value on the broader social and economic development impacts of a development finance institution is both a benchmark and a best practice. All of the DFIs reviewed have a method to track the overall development impact of their respective programs. Presently, the State of Alaska and AIDEA's evaluation criteria and metrics are rooted in 20th century approaches. Both the state and the agency will be well-served to adopt a broader range of value-metrics, e.g., indicators that demonstrate the contribution of AIDEA-funded projects to growth in Alaska's GDP; the increase overall in wages, educational attainment, quality of jobs, etc.

Measuring Loan Proceeds Disbursed in Addition to Standard Input Measures: More DFIs are adopting this best practice, as they view it as a meaningful measure of the efficacy of the loans that they review and approve. The actual deployment of loan proceeds is an indicator of how funds are being utilized. AIDEA already has expansive metrics in terms of loans requested, reviewed and approved. A follow-on measure of disbursement of loan proceeds is a positive sign that the projects funded came to fruition. Additionally, this measure also is an informal indicator of client aftercare, which is a major element of many of the DFIs

TABLE 5: AIDEA'S BEST PRACTICES		
Best Practice Segment	**Best Practice Basics**	**Additional Best Practices to Consider**
Strategic Approach	◆ Organizational strategic plan with clearly articulated vision, mission, goals, targeted sectors – the DRIVERS of the entity's operations. ◆ Clearly defined metrics and indicators that link social and economic development goals and outcomes to financial products and services. ◆ Statement of guiding principles, including values and ethics. ◆ Strong commitment to private-public partnerships.	◆ Tying AIDEA's strategic plan directly to the State of Alaska's economic development strategic plan. ◆ Expanding AIDEA's organizational metrics and indicators to include social and economic development goals. ◆ Linking the targeting and selection of projects and clients to social and economic development goals and outcomes.
Internal Operations	◆ Data-based decision making and performance evaluations. ◆ Deeply-embedded risk management policies. ◆ Client satisfaction feedback and tracking. ◆ Delivering client "aftercare". ◆ Performance-based incentives linked to directly to the achievement of social and economic development goals. ◆ Skilled and sector/industry-savvy experts. ◆ Tracking of portfolio growth instead of or in addition to tracking of traditional inputs and outputs.	◆ Instituting client satisfaction surveys. ◆ Examining the feasibility of performance incentives as part of the staff's compensation package. ◆ Tracking AIDEA's contribution to the economic development additionality of Alaska.
Organizational Approach	◆ Performance standards for all client contracts to ensure that the financial agreement and social and economic development goals are met. ◆ Frequent and consistent reporting of results – quarterly, semi-annually and annually. ◆ Focus of overseers on social and economic development achievements, and not just financial indicators, e.g., ROI. ◆ Leveraging financial resources with partners.	◆ Expanding the focus of AIDEA's overseers to include other indicators of success, e.g., social and economic development impact of each project. ◆ Measuring loan proceeds disbursed instead of reporting solely on number of loans reviewed and number and value of loans approved.

Sources: See Appendix 2 in Appendix Report.

included in this report, e.g., Ohio, North Dakota, Massachusetts, Texas, Canada, Ireland and Singapore.

AIDEA should consider adopting and integrating these additional best practices into its operations as summarized in Table 5.

Strategic Considerations for Alaska and AIDEA

As Alaska's development finance institution, the Alaska Industrial Development and Export Authority (AIDEA) serves as a critical pillar in facilitating and advancing the state's economic and employment development. Through AIDEA, the State of Alaska is able to spur private capital investment and job creation, as well as deliver infrastructure and other projects that capitalize upon the state's natural resources and bring basic services and much-needed jobs to the people of Alaska. AIDEA facilitates these investments and projects through its legislatively-mandated powers to provide asset-based financing.

As we have seen in other state and international development finance institutions (DFIs), the breadth of their scope far surpasses that of AIDEA. In the DFIs reviewed, many have expanded their scope to provide more financing tools to support a broader range of economic development opportunities and needs. Most have achieved this by assuming these functions directly, or by creating a subsidiary or new entity, or through other public sector organizations or private-public partnerships. For some states and nations, their expanded financial offerings include financing for entrepreneurs and SMEs; exports; FDI projects; grants to newly-locating firms or the expansion of incumbent firms; direct lending to businesses, and equity investments. The breadth and scope of some of the DFIs were all-encompassing, most particularly in Ohio, Massachusetts, Canada, Ireland and Singapore. In these DFIs, as well as in OPIC, a major focus for much of their lending and investment programs, as well as technical assistance, was SMEs. Additionally, many of these institutions either directly fund or catalyze funding for innovation-oriented investment and business retention and recruitment programs, most notably in Ohio, Texas, Canada, Ireland and Singapore.

In all cases, the operations of state and international DFIs included in this review are grounded in an overarching state or national strategic plan for economic development – an essential underlayment that is absent in the State of Alaska.

As AIDEA digests the research and information presented in this report, we offer some strategic considerations that are intended to spur thoughtful analysis on the part of the agency as it contemplates how to become even more effective in its role for the State of Alaska. Some of these ideas are intended for the state as a whole, as AIDEA does not operate in a vacuum, but rather, as an instrument of the State of Alaska. Accordingly, AIDEA and its Board of Members may elect to use their relationship capital to advise the Alaska Governor and Legislature in terms of actions needed to help Alaska – and AIDEA – become more competitive and successful in economic development.

Creating an Economic Development Strategic Plan for the State of Alaska

The National Governors Association Center for Best Practices has underscored the critical importance of an economic development strategic plan for U.S. states.[10] As the global economy becomes more integrated and competition for private sector jobs even more intensified, U.S. states have recognized the need for clearly articulated visions, directions and goals to strengthen their own economies. The need for a statewide economic development strategic plan is an imperative in today's world. Nearly all of America's states have such a strategy, which provides guideposts as to how a state can fully capitalize upon it assets to expand its economy, generate job and GDP growth, and elevate its overall economic competitiveness.[11]

A public stakeholder meeting held in Kotzebue to discuss the Ambler Mining District Access Project

AIDEA has issued a number of bonds over the years in support of expansion and upgrading of the Fairbanks Memorial Hospital.

The absence of such a strategy often leads to redundant and sometimes disjointed efforts. Through the Alaska Regional Development Organizations (ARDOs), there are multiple economic development strategic plans – all at the regional level and each one distinctive from the rest.[12] While regional economic development strategies are an important component of a coherent statewide economic development strategy, they often are developed and executed with one goal in mind: to generate economic development for their own areas, often without regard to the impact on the state as a whole or on other regions.

Given Alaska's 'frontier economy' and its over-dependency on government and extraction commodities, it is essential that the state develop and execute a strategy that will drive economic diversification over the long-term. To achieve this, a top-down and bottom-up approach will be needed, coordinating with the state's other economic development agencies and other state government departments whose work directly impacts Alaska's business climate and economic development competitiveness. This endeavor also can and should fully engage Alaska's ARDOs and municipalities, but most importantly, it must actively engage the private sector – large, medium and small business executives and owners. One of the best examples of such a strategic planning approach was executed by Governor John Hickenlooper of Colorado in 2011. Directed by gubernatorial Executive Order (No.D2011-003), the State of Colorado Office of Economic Development and International Trade (OEDIT) led the development of the "Colorado Blueprint: A bottom-up approach to economic development strategic plan".[13] Governor Hickenlooper empanelled a state team representing more than 12 state agencies and organizations to travel throughout the entire state and convene more than 5,000 community, civic, business and educational leaders in each of Colorado's 64 counties to obtain their active participation and provide input into the Colorado Blueprint.[14] Nearly 9,000 Colorado residents also provided their input via an online survey.[15] The Colorado Blueprint has yielded significant results for the State of Colorado – not just in its well-developed and renowned urban centers (Denver and Colorado Springs) - but throughout all areas of the state, including rural communities.

Expanding AIDEA's Portfolio of Offerings

The benchmarks and best practices analysis validated that AIDEA delivers many of the standard programs offered by the DFIs included in this review. Some benchmarks – those identified as 'gold standards' – presently are not within AIDEA's portfolio of finance tools but do merit consideration. Recognizing that AIDEA can operate only within the legally-mandated parameters established by the Alaska State Legislature, we recommend that AIDEA consider the following actions, some of which will require approval by the Governor and Legislature.

1. Establish a Strategic Investment Fund

AIDEA should establish a subsidiary entity to invest on a commercial basis in projects that support economic and employment growth in Alaska. The Strategic Investment Fund should have a dual mandate, i.e., investment return and Alaskan economic impact – representing a new "double bottom line" approach to investing in Alaska and would require all transactions to generate both risk adjusted commercial returns and a measurable economic impact on a local, regional, or statewide basis. This double-bottom line approach is a core value of development finance institutions in Ohio, Massachusetts, Texas, Canada, Ireland and Singapore, as well as in OPIC and the IFC-Asset Management Company.

A loan participation in partnership with Northrim Bank expanded the tank farm owned by Sitnasauk Native Corporation (Village Corporation of Nome). This ensures that Nome will have the fuel security it needs to make it through the winter.

AIDEA Board meeting.

DeLong Mountain Transportation System 52-mile long road connecting the Red Dog Mine with the port, Northwest Alaska. This is an AIDEA-owned project.

As part of its mandate, the Strategic Investment Fund could participate in all levels of a project or company's capital structure including senior debt, mezzanine debt, traditional private equity (either directly or through another investor fund), venture capital, preferred equity and other important transactions that would yield significant and positive economic outcomes for Alaska, e.g., acquisitions, turnarounds or disposals. When directly investing, the Strategic Investment Fund should seek to take a substantial minority position in either debt or equity, and as part of its risk-management strategy, should participate as a member of a syndicate or co-investment group that takes the lead on due diligence, validating the feasibility of projects presented for support.

AIDEA's Strategic Investment Fund should focus on investment in projects, companies and funds that have the potential for significant expansion, innovation, value improvement and "economic development additionality" (increase in Alaska's GDP). These investments entail creating and/or investing in new funds, investing in established funds, or investing in projects or firms that can minimally demonstrate:

1. Above average growth rates in earnings or sales;
2. High or improving returns on capital, or
3. The ability to capture/ penetrate significant market opportunities.

In addition, the mandate of the Strategic Investment Fund should allow it to invest in infrastructure projects, such as water, energy,

A loan participation with Alaska USA Federal Credit Union – total loan value is $5.25 million. (Anchorage)

telecommunications, transportation and others that provide essential infrastructure to support the state's economic growth and competitiveness. The fund should have the flexibility to deploy its monies patiently, and develop a broad based portfolio across sectors, regions, and asset classes to achieve maximum effectiveness. Singapore, for example, measures a 20-year rolling annual average return for its "patient capital" investments made through its Singapore Economic Development Board Investments, Pte, Ltd. loan fund. AIDEA's Strategic Investment Fund should adopt a similar approach by targeting an annual dividend of its annual net income to Alaska of 10 to 15 percent after an agreed upon period of years.

2. Increase Export Assistance and Aggressively Pursue Foreign Direct Investment

Alaska should significantly elevate its commitment to export promotion and foreign direct investment. This can be accomplished by creating a separate entity, similar to Export Development Canada or Ireland's Industrial Development Authority, which would be solely responsible for promoting and attracting foreign direct investment (FDI) into Alaska. A range of services, incentives, and financing tools should be made available to qualified foreign firms that invest capital and create quality jobs in Alaska. The services, incentives, and financing tools should be offered to both existing firms that undertake expansion plans as well as those that are new locates. These activities should be carried out in collaboration with Select USA, which is housed in the U.S. International Trade Administration.

Additionally and equally important, a dedicated division should be established and empowered to promote Alaska exports to the Lower 48 U.S. states and the world, and to provide services, incentives, and financing tools in order to assist those businesses in Alaska seeking to export their products and services. This should be done in collaboration with the U.S. Commercial Service, which is housed in the International Trade Administration. There is a compelling need for an Alaskan presence in the global market that ensures the state is on the business locations 'radar screen', and is considered as an attractive and competitive location for business. Absent a statewide strategic plan and robust external

Direct AIDEA loan of $8 million was used for gap financing to complete construction of the new state-of-the-art blood facility that serves all of Alaska. (Anchorage)

AIDEA Board and staff members visit the Red Dog Mine and the DMTS Port through which the mine's ore is shipped out.

marketing function, this is not necessarily the case today. Through a highly focused and aggressive FDI recruitment strategy, business locations opportunities should be marketed to targeted firms in select countries, i.e., those that have similar economic structures as Alaska. As well, there are a number of businesses in Alaska that could potentially expand their own markets domestically and internationally for their goods and services if the state provided assistance in exploring and targeting those opportunities for these incumbent firms.

3. Develop an Entrepreneurship Strategy and Establish a Fund to Support this Sector

While the entrepreneurial ecosystem is growing in Alaska, it is occurring organically and in silos around the state. Presently, there is no overarching entrepreneurship strategy that provides the platform for these disparate and disjointed initiatives. Such a strategy is important to ensure that the State of Alaska significantly elevates its stake and participation in the single most important driver of job creation in America: entrepreneurship as manifested through business startups and the growth of small-to-medium sized businesses. Entrepreneurship and the ecosystem that supports the cultivation, ideation and launch of new enterprises is a fundamental economic growth pillar. A majority of states and many nations as well as colleges and universities across the world have adopted strategies that support these firms, from funding to competitions to technical assistance and other supports, e.g., incubators, accelerators and coworking spaces.

In expanding AIDEA's focus on assisting entrepreneurs, the level of risk becomes higher than the asset-based projects which the agency currently funds. Through its own internal benchmarks and best practices analyses, AIDEA identified several states that have taken a more assertive role in what can be considered as risk capital investing. Many states, including those analyzed in this report, as well as New Jersey and others, do invest in equity transactions and venture capital funds. In an AIDEA report dated October 26, 2014, the State of New Jersey proffered a recommended approach to risk capital investing: the New Jersey Economic Development Authority's Board of Directors used a "toe in the water" approach by starting to invest directly with

H2Oasis Indoor Water Park, President Dennis Prendeville. Total loan package of $3.6 million was provided in partnership with Northrim Bank.

Ground breaking for a loan participation with First National Bank Alaska to build a FNBA branch in the UMed District of Anchorage.

venture capital firms that invest entirely in New Jersey or that supported the state's primary targeted economic sectors. As the DFI became more comfortable with the results of its initial investments, the organization expanded its investments in venture and equity capital.[16]

For AIDEA, a reasoned approach to engage in these higher risk investments would be to create a fund (or several funds) that are separate from its revolving loan fund to ensure that the credit rating of the revolving loan fund and AIDEA are insulated and protected. Creating a "firewall" between AIDEA's existing funds and credit rating and entrepreneurship funds is an important first step in this process. The AIDEA executive team and Board of Members should consider establishing a minimum funding commitment for seed, equity and other higher risk lending, including non-recourse loans, and utilize its outstanding approach in developing operating policies and procedures for these investments. Again, because the risk associated with these types of loans is higher than that associated with the asset-based loans that AIDEA historically has made, the risk management policy for entrepreneurship-focused investments and loans needs to take into account that not every investment may be successful. AIDEA may want to work with the oil and mining companies currently operating in Alaska and explore the potential of using their individual venture funds or other financial support to create a blended high risk capital pool. Participation of foundations as other partners in these endeavors should be considered as well, providing a prime opportunity for blended finance funds such as those in North Dakota, Canada, Ireland and the IFC-Asset Management Company. Responsibility for leading the development of an entrepreneurship strategy should be vested in AIDEA, as eventually, the agency will be responsible for developing and implementing any financing programs that may result from such an endeavor.

Moving Forward

AIDEA already is a well-respected and high performing development finance institution among many of its peers in the U.S. The agency operates within strict bounds established by the Alaska Legislature, and is limited in terms of its scope of programs, as well as by the absence of a robust deal-generating pipeline that typifies development finance institutions in other states and across the world. This is not a reflection of AIDEA's abilities, but rather a manifestation of Alaska's relative lackluster performance in the economic development arena.

Alaska is a state replete with majestic and wondrous natural beauty. The state is blessed with riches in its natural resources, and has worked vigorously to capitalize on these assets to generate revenues for the state, improve the quality of life and economic and earnings opportunities for Alaskans. As a 'frontier economy' with a vast land area and climate that uniquely provides an environment for certain types of business and industry, Alaska can and should be a location of choice for enterprises and companies across a broad range of economic sectors, and not just those in Alaska's economic mainstays of natural resources, forestry or fisheries.

AIDEA is a critical pillar for Alaska's economy. It can be even more beneficial if provided the support and means through which to expand its offerings and invest in projects and firms that will have a long-term, high yield development impact for the state and its people. The AIDEA Board of Members and Alaska's Governor and Legislature can and should consider expanding AIDEA's scope in the interest of a stronger Alaska.

A stakeholder meeting in Fairbanks regarding the legislatively appropriated Interior Energy Project.

An AIDEA-owned facility, the Skagway Ore Terminal, primarily serves the mining industry in the Yukon Territory in Canada, but provides economic diversification in Skagway.

The 4.5 mile road and pad now house the MOC1 processing facility. Completed as a separate project, AIDEA has a partial ownership position in the road and pad and contributed $20 million of the $27 million project.

[1]Reports produced by the National Governors Association, the National Association of State Budget Officers and individual states have shown that even during the Great Recession of 2007-2009, many states increased their economic development budgets as their governors and legislatures saw this as a critically important investment (and not expenditure) to help restore the economic losses that they had experienced as a result of the financial crisis. A review of many states conducted in 2015 by IO.INC validated this trend.
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