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Management Issues Remain Unresolved in the Market Promotion Program

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MANAGEMENT ISSUES REMAIN UNRESOLVED IN THE MARKET PROMOTION PROGRAM

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GAO's testimony addresses program goals of the Department of Agriculture's Market Promotion Program, fiscal management, and Agriculture's implementation of GAO's prior recommendations. Over $1.1 billion has been authorized under the program and its predecessor, the Targeted Export Assistance Program, since 1986.

The Market Promotion Program's broad goals of encouraging the development, maintenance, and expansion of agricultural exports can be used to justify program support under any market situation. Over one-third of the program funds have been used by private firms to promote their products. Despite the substantial funding for this program, the large number of variables that determine exports makes it extremely difficult to demonstrate a one-to-one relationship between program-funded promotion activities and increased exports.

Agriculture has acted on some of GAO's prior recommendations to improve the management of the program, however, more progress is needed. Agriculture has established criteria for choosing which projects to fund. However, the criteria do not include any guidelines as to when program support for particular activities is no longer needed and program funding should be phased out. In addition, while Agriculture has begun to give its marketing specialists some training in marketing and business practices, additional training will still be needed. This training is necessary because these specialists have primary oversight responsibility for participant marketing activities involving complex sales promotion strategies costing millions of dollars. Finally, in our 1990 report we called for Agriculture to strengthen the program's internal controls. An example of an internal control weakness recently surfaced--one program participant's contractor received fraudulent reimbursements amounting to over $1,100,000.

It is important when evaluating the Market Promotion Program to place it in the context of governmentwide efforts to promote U.S. products in world markets. In fiscal year 1991 10 federal government agencies spent about $2.7 billion on export promotion. While agricultural products accounted for only about 10 percent of total U.S. exports, the Agriculture Department spent about $2 billion, or 75 percent, of the government total. It is also important to note that U.S. government export promotion programs are not funded on the basis of any governmentwide strategy or priorities. Consequently taxpayers do not have reasonable assurances that the government's resources are being effectively used to emphasize sectors and programs with the highest potential returns.

Mr. Chairman and Members of the Committee:

I am pleased to be here today to discuss the Department of Agriculture's Market Promotion Program. My testimony is based on our recent work.[1] As you requested, we will be testifying on (1) the goals of the program; (2) whether program regulations have been sufficient to ensure sound fiscal management; and (3) whether Agriculture has implemented recommendations made in our June 1990 report on the Targeted Export Assistance Program, the predecessor to the Market Promotion Program.

BACKGROUND

The Market Promotion Program, managed by the Foreign Agricultural Service (FAS), was created to encourage the development, maintenance, and expansion of exports of U.S. agricultural products. Established by the Food, Agriculture, Conservation, and Trade Act of 1990, the program is open to a wide variety of exporters but gives priority to participants adversely affected by unfair trade practices. This program became the successor to the Targeted Export Assistance Program, which limited participation to those involved with commodities adversely affected by an unfair trade practice. The program operates through about 40 not-for-profit associations that either run market promotion programs themselves or pass the funds along to private sector companies to spend on their own market promotion efforts. About two-thirds of all program activities involve generic promotions, with the remaining one-third spent for "branded" (brand-name) promotions. The Market Promotion Program focuses primarily on high-value products such as fruits, nuts, and processed products.

In fiscal year 1991, the program's participants received more than $200 million in program funds and conducted activities in 139 countries. Since 1986, over $1.1 billion has been authorized for the Targeted Export Assistance and Market Promotion Programs.

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[1] U.S. Department of Agriculture: Agricultural Trade Officers' Role in Promoting U.S. Exports Is Unclear (GAO/NSIAD-92-65, Jan. 16, 1992); Export Promotion: Federal Programs Lack Organizational and Funding Cohesiveness (GAO/NSIAD-92-49, Jan. 10, 1992); U.S. Department of Agriculture: Strategic Marketing Needed to Lead Agribusiness in International Trade (GAO/RCED-91-22, Jan. 22, 1991); Agricultural Trade: Improvements Needed in Management of Targeted Export Assistance Program (GAO/NSIAD-90-225, June 27, 1990); Agricultural Trade: Review of Targeted Export Assistance Program (GAO/NSIAD-88-183, May 24, 1988); and International Trade: Review of Effectiveness of FAS Cooperator Market Development Program (GAO/NSIAD-87-89, Mar. 17, 1987).

Despite the substantial funding for this program, the large number of variables that determine exports makes it extremely difficult to demonstrate a one-to-one relationship between program-funded promotion activities and increased exports.

The Market Promotion Program's broad goals can be used to justify program support for promotions under any market situation. Funds are not allocated based on product or market priorities. Only commodities that have been subject to documented unfair trade practices are to be given extra preference. The small start-up company trying to establish itself in an overseas market and the large multinational corporation that spends millions of its own dollars to maintain its decades-long position in a country receive the same consideration for funding. Over a third of the money spent under the program is used directly to support the overseas marketing programs of private U.S. companies.[2] In some cases these companies are large, multinational firms with broad experience in exporting.

The Cooperator Program--another FAS market development program, in operation since the mid-1950s--has broad goals that are similar to those of the Market Promotion Program. Some Cooperator Program participants have transferred their activities to, and now only participate in, the Market Promotion Program; others continue to participate in both programs.

Although the Food, Agriculture, Conservation, and Trade Act of 1990 required Agriculture to develop a long-term agricultural trade strategy by October 1991, the strategy is still under development and has yet to play a role in the allocation of Market Promotion Program funds or in other trade-related programs and activities.

FISCAL MONITORING WEAKNESS

In our 1990 report we made recommendations related to the need to strengthen internal controls and increase oversight of program participants. Fiscal oversight of the Market Promotion Program is difficult because FAS works through about 40 not-for-profit associations rather than spend the money directly. FAS allocates funds to the associations, who can both contract with private firms to run generic market promotions for the associations and allocate the funds to private companies who use the money to promote their own branded products in foreign markets. While FAS Compliance Review staff periodically audit the not-for-profit associations,

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[2]See our report, Agricultural Trade: Improvements Needed in Management of Targeted Export Assistance Program (GAO/NSIAD-90-225, June 27, 1990).

they do not as a rule audit the not-for-profit associations' contractors or the branded participants. Hence, there are potential opportunities for abuse in circumstances in which there is little likelihood of government monitoring and oversight.

For example, one of the American Soybean Association's contractors in the United Kingdom submitted altered invoices over several years. The contractor's expenditures accounted for $15 million in Targeted Export Assistance funds and $900,000 in Cooperator funds.

The altered invoice situation surfaced in October 1990 when a former employee of the contractor, Goddard, Niklas, Delaney, DeRoos, gave the American Soybean Association evidence that prices on supplier invoices supporting Goddard's billings to the Association had been altered to reflect expenses in excess of actual costs incurred. Goddard admitted to the alterations, whereupon the American Soybean Association immediately terminated its contract with Goddard and took legal action to obtain all accounting records and stop payment on all outstanding billings. In December 1990 the American Soybean Association notified FAS of the situation and the actions taken.

Although the American Soybean Association has been the subject of audits by the Department of Agriculture and outside auditors selected by its board of directors, Goddard was never audited by the American Soybean Association or the Department of Agriculture, despite the substantial sums received by the firm. Agriculture does not routinely audit firms employed by program participants because of insufficient staff.

Under a subsequent court-supervised agreement between the American Soybean Association and Goddard, FAS gained access to Goddard's records for a 4-week period beginning March 11, 1991. FAS' Compliance Review staff determined that the Association received excess reimbursements amounting to over $1,100,000 under the Targeted Export Assistance and Cooperator Programs. In January 1992 a British court ordered Goddard to pay the American Soybean Association $1,019,890. FAS intends to demand payment from the American Soybean Association in the amount of the fraud as determined by the compliance review. The Department of Agriculture's Inspector General is currently investigating this case.

STATUS OF IMPLEMENTATION BY AGRICULTURE OF PRIOR GAO RECOMMENDATIONS

Our 1990 report contained a number of recommendations to improve the management and operations of the Targeted Export Assistance Program, the predecessor program to the Market Promotion Program.

The Department has made some progress in implementing our recommendations; additional efforts, however, are required. I will briefly highlight our recommendations and the Department's response.

Recommendation

We recommended that FAS adequately document major program decisions, including the process for making funding allocation decisions, to show clearly how funding criteria were applied and ranked and the basis for those decisions.

Response

FAS is responding to this recommendation. Beginning in fiscal year 1992, a panel of four FAS Commodity Division officials are reviewing application summaries prepared by the responsible commodity divisions. Applicants are then to be scored on the five criteria indicated in the program regulations and ranked according to cumulative score.[3]

Unlike prior years' applications, 1992 applications are expected to provide world and country/commodity strategic plans with 1992 estimated trade and market share goals. In addition, as part of the application review process, FAS obtained input from its foreign posts. The Application Review Summary (the FAS internal analysis document) was expanded and standardized, and export performance

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[3]The criteria are (1) the extent to which the prospective participant represents production of the agricultural commodity, with first priority given to applicants with the broadest-based membership; (2) the applicant's ability to provide with its own resources a U.S.-based staff capable of conducting overseas promotion projects and its willingness to otherwise contribute resources to the project, and the scope and complexity of proposed activities in relation to the applicant's prior export experience and U.S.-based staff resources; (3) the Commodity Credit Corporation's determination of the adequacy of the applicant's strategic plan in terms of its description of market conditions and identification of constraints, the likelihood of overcoming the constraints through use of Corporation resources, and the estimated change in exports or market share expected as a result of overcoming the constraints; (4) for brand-name promotions, a detailed explanation of the prospects of success of the proposed activities in terms of increasing exports of the U.S. agricultural commodity or product; and (5) the adequacy of the applicant's provisions for monitoring and evaluating the activities proposed in the strategic plan.

information was included. The application approval letter format was also changed to provide additional program controls.

Establishing and using program criteria are steps in the right direction. However, the criteria do not include any guidelines as to when program funding is no longer needed for particular activities, as suggested in our prior report. Government funding may be of particular importance in some situations, but not in others. For example, assistance may be needed to overcome particularly burdensome barriers. However, once these barriers are overcome and the market is developed, federal funding may no longer be justified. In such circumstances, government funding should be phased out, and exporters should assume the full cost of promoting their products. However, because program criteria do not address the issue of when government funding should be phased down and funds reallocated to more critical areas, funding for specific efforts may continue indefinitely.

Recommendation

Because FAS had been reluctant to require any contribution from program participants, we recommended that FAS require that participants in the generic portion of the program contribute a minimum of 5 percent of the approved program resources.

Response

As of fiscal year 1992 FAS required a minimum cash or resource contribution of 5 percent of promotion costs from participants. That is, FAS will provide a maximum of 95 percent of the cost of an approved market promotion program.

Recommendation

We recommended that FAS develop formal technical training programs in areas such as business and marketing for marketing specialists. (Within the Commodity Divisions these specialists have primary responsibility for reviewing program applications, activity plans, and evaluations.)

Response

FAS has made some progress in this area, but we believe more should be done. We, as well as FAS, have reported that FAS officers are weak in their ability to identify market development opportunities and in their ability to plan and implement market development activities. In 1991 a 3-day basic marketing course was provided to FAS marketing staff. Two additional courses will be offered in

1992--marketing plans and evaluating program results, and sales promotions for consumer-ready products.

Additional training, however, is still needed. It is important because these specialists have primary oversight responsibility for participant marketing activities involving millions of dollars. Hence, more sophisticated marketing skills will be needed to assure program effectiveness.[4]

Recommendation

We recommended that FAS develop a management information system that provides easy access to basic summary data on participants and program operations.

Response

FAS is responding to this recommendation and is in the process of developing its U.S. Agricultural Marketing System, a management information system for the marketing programs. Phase I of the system, which will provide financial information, is scheduled to be operational in fiscal year 1993. The entire system is expected to be on line in 1994 or 1995.

Recommendation

We recommended that FAS conduct more oversight of those private firm participants promoting their own brands; that it require the not-for-profit associations who administer branded program promotions to evaluate those programs; and that it require all branded participants to pay at least 50 percent of the cost of promotional efforts financed under the program.

There has been some debate on the branded portion of the Market Promotion Program concerning the equity of providing government funds to private firms to promote their own brands. Several of these firms are large multinational corporations. FAS officials and program participants have expressed concern over the fact that program funds are being used to help the foreign market development activities of such firms.

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[4]See our reports, U.S. Department of Agriculture: Strategic Marketing Needed to Lead Agribusiness in International Trade (GAO/RCED-91-22, Jan. 22, 1991); International Trade: Agricultural Trade Officers' Role in Promoting U.S. Exports Is Unclear (GAO/NSIAD-92-65, Jan. 16, 1992).

FAS delegates responsibility for administering branded funds to the not-for-profit agricultural trade associations, but exercises minimal oversight over these associations. Without adequate oversight, there are no assurances that program regulations are being followed and that activities are being conducted in the most effective way.

Response

Some changes have occurred in administering the branded program as a result of our recommendation. Program regulations require not-for-profit program participants who channel funds to private sector organizations for brand-name promotions to describe these programs in their annual activity plans and to indicate anticipated export increases. As in the past, activity evaluations are required from the not-for-profit associations. With two exceptions, branded participants are limited to a 50-percent reimbursement rate.[5]

Recently, additional questions have surfaced regrading the branded program. These include

- -- the U.S. content of products being promoted,
- -- participation by foreign firms, and
- -- limits on the length of time a company may remain in the program and the amount of money it may receive.

FAS needs to address these issues.

Recommendation

We recommended that FAS provide more specific evaluation guidance to the participants, perform cross-commodity analysis, and conduct program evaluations. Program evaluations can cover one participant's entire program within a country or region or several similar programs within a country or region.

Response

Since our June 1990 report relatively little has changed despite significant evaluation requirements included in the 1990 farm bill.

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[5]Two exceptions are authorized for (1) commodities with a favorable decision by the U.S. Trade Representative under Section 301 of the 1974 Trade Act and (2) commodities reimbursed at a rate higher than 50 percent during 1990 under the Targeted Export Assistance Program. The rate of reimbursement is being phased down, beginning with the 1991 program, to 50 percent of the cost of the eligible expense over a 5-year period.

Formal and routine cross-commodity analyses are not conducted; such analyses tend to be done informally on an ad hoc basis.

FAS has conducted few formal evaluations of participants' programs and is still developing a methodology for evaluating the effectiveness of the program as required by section 203 of the Food, Agriculture, Conservation, and Trade Act of 1990. From 1986 though 1991, 87 organizations participated in the program, though FAS has conducted overall evaluations of only 10, including just 7 of the 23 who have received cumulative funding of $10 million or more from 1986 to 1991.

Recommendation

We recommended that if the Targeted Export Assistance Program were reauthorized, FAS should combine it with the Cooperator Program to facilitate program administration and to maximize program effectiveness.

Response

FAS disagreed with this recommendation, stating that the legislative authority, purpose, and funding sources of the two programs make their merger into a single program impractical. However, we still believe that the Cooperator Program and the Market Promotion Program (the successor to the Targeted Export Assistance Program) should be combined since both programs fund similar activities such as consumer promotion, trade servicing, and technical assistance for, in many cases, the same participants. Further, combining the two programs would more efficiently use limited FAS resources and increase the effectiveness of the market development activities of each program.

Market Promotion Program's Funding Is Not Linked to Any Governmentwide Strategy

Lastly, in evaluating the Market Promotion Program, it is worthwhile to examine how it fits within governmentwide efforts to promote U.S. products in world markets. Ten federal government agencies currently offer programs to help businesses begin exporting or to expand their exports. In fiscal year 1991 these agencies spent about $2.7 billion on export promotion programs. However, the export promotion programs are not funded on the basis of any governmentwide strategy or priorities. Consequently, taxpayers do not have reasonable assurances that the government's resources are being effectively used to emphasize sectors and programs with the highest potential returns.

For example, while agricultural products only constitute about 10 percent of U.S. exports, the Agriculture Department spent about $2 billion on export promotion in fiscal year 1991. In other words, Agriculture spends almost three-quarters of the government's total outlays on export promotion.

Agriculture's Market Promotion Program by itself received more funds in fiscal year 1991--$200 million--than was spent by the Commerce Department on all its export promotion programs put together. By way of comparison, the Department of Commerce spent about $91 million to support exports of nonagricultural products through its U.S. and Foreign Commercial Service (US&FCS). This money was spread among a large network of 131 posts in 67 countries and 47 domestic offices.

US&FCS' largest overseas commercial staff is in Japan, which operated in fiscal year 1991 on a budget of $4.3 million. In contrast, Agriculture budgeted $63.9 million for the Market Promotion Program in Japan during the same year.

Improving the Market Promotion Program, as well as all the government's export promotion programs, is important. However, the most significant progress cannot be achieved one agency or one program at a time. In our recent report to the House Committee on Government Operations reviewing the resources of all the federal government agencies involved in export promotion, we recommended that Congress require that all export promotion programs be integrated into a governmentwide strategic plan and funded in a manner consistent with the priorities given them under the plan.[6]

ISSUES TO CONSIDER FOR MARKET DEVELOPMENT PROGRAMS

As we stated in our prior report, regardless of whether the Market Promotion Program and the Cooperator Program are combined or maintained separately, we believe FAS should clarify the following issues in order to use its market development resources more effectively:

- -- the percent of total funding that should be allocated to generic and/or branded promotions,
- -- the emphasis to be placed on exports representing high-value products versus bulk commodities,
- -- the division of funding between new market development and/or established markets,

[6]See Export Promotion: Federal Programs Lack Organizational and Funding Cohesiveness (GAO/NSIAD-92-49, Jan. 10, 1992).

-- the participation levels of large, well-established private firms and/or small and new-to-market firms,
-- the length of time participants should remain in the program before they would be expected to maintain their market presence on their own.

Additionally, in our recent report to the House Government Operations Committee on governmentwide export promotion programs, we recommended that the Trade Promotion Coordinating Committee prepare a governmentwide export promotion strategy based on national objectives and that all export promotion programs be funded according to the priorities in the strategic plan. Recommended future funding for the Market Promotion Program should be consistent with the priorities set out in this strategic plan.

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Mr. Chairman and Members of the Committee, this concludes my prepared statement. I will be happy to answer any questions you might have.

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