United States General Accounting Office

GAO

Testimony

Before the Subcommittee on Foreign Agriculture and Hunger, Committee on Agriculture, and the Subcommittee on Information, Justice, Transportation and Agriculture, Committee on Government Operations, House of Representatives

For Release on Delivery
Expected at
9:30 a.m., EST
Wednesday,
November 10, 1993

U.S. DEPARTMENT OF AGRICULTURE

Improvements Needed in Foreign Agricultural Service Management

Statement of Allan I. Mendelowitz, Managing Director
International Trade, Finance, and Competitiveness
General Government Division

U.S. DEPARTMENT OF AGRICULTURE:

IMPROVEMENTS NEEDED IN
FOREIGN AGRICULTURAL SERVICE MANAGEMENT

SUMMARY OF STATEMENT BY ALLAN I. MENDELOWITZ, MANAGING DIRECTOR
INTERNATIONAL TRADE, FINANCE, AND COMPETITIVENESS
GENERAL GOVERNMENT DIVISION
U.S. GENERAL ACCOUNTING OFFICE

The current tight budget environment and the substantial resources devoted to agricultural export programs make good management of these programs critical. The U.S. Department of Agriculture's (USDA) Foreign Agricultural Service (FAS), however, frequently has not effectively managed its programs. For instance, under the Market Promotion Program, FAS turns government funds over to not-for-profit associations that either run market promotion programs themselves or pass the funds along to private-for-profit companies to spend on their own market promotion activities. FAS retains little control over the funds provided to the private-for-profit companies. Furthermore, FAS does not obtain assurance that market development activities would not have been undertaken without government assistance; and, FAS has not established a limit on the number of years that a participant can receive assistance before it is expected to assume the cost of its own market promotion.

FAS expends a significant amount of resources on reporting about overseas developments that affect U.S. agriculture. The reports are expected to support USDA programs, to assist FAS in its trade policy work, and to disseminate information to industry about foreign competition and demand for U.S. farm products. Much of the reporting, however, is put to little use either by USDA or the U.S. agricultural industry.

Strategic planning is very important for the efficient management of government resources. Under the Food, Agriculture, Conservation, and Trade Act of 1990, USDA was required to develop a long-term agricultural trade strategy (LATS) to guide the implementation of federal programs designed to promote the export of U.S. agricultural commodities. GAO's review indicates that LATS does little to set meaningful priorities for agricultural export programs and resources. GAO believes that additional work will be necessary to make LATS a useful management tool.

In September 1993, the interagency Trade Promotion Coordinating Committee (TPCC) released a report on its efforts to develop a governmentwide strategic plan for export promotion programs. GAO is concerned with the lack of USDA involvement within the governmentwide strategy, particularly since USDA receives the bulk of the federal export promotion budget.

Mr. Chairmen and Members of the Subcommittees:

I am pleased to be here today to testify before these Subcommittees on the operation of the Foreign Agricultural Service (FAS) of the U.S. Department of Agriculture (USDA), including its management of export promotion and assistance programs, its use of resources in reporting on agricultural developments overseas, and its strategic planning. FAS administers a variety of programs to promote the sale of U.S. agricultural products overseas. FAS also reports on agricultural developments abroad, acts to reduce barriers to U.S. exports, and conducts various market development activities.

NEED TO IMPROVE MANAGEMENT OF PROGRAMS

FAS manages about $10 billion a year in agricultural export programs. These programs are designed to increase U.S. agricultural exports by maintaining and developing foreign markets for U.S. agricultural products. These programs include the Export Credit Guarantee programs; the Market Promotion and Foreign Market Development (Cooperator) programs; the Export Enhancement Program; and title I of Public Law 480.

The current tight budget environment and the substantial resources devoted to agricultural export programs make good management of these programs critical. In the past, we have testified before Congress concerning the weaknesses in these programs and have urged greater management controls. While improvements have been made, we continue to have concerns about management weaknesses that diminish the efficiency and effectiveness of FAS programs. Better management of these programs would improve the return on taxpayer funds.

Export Credit Guarantee Programs

GAO has reported in the past on poor management controls within the Export Credit Guarantee programs. These programs, which include the General Sales Manager programs (GSM)-102/103, are aimed at increasing the willingness of U.S. banks to finance export sales of U.S. agricultural products. Financial institutions in the United States provide financing for individual commodity sales to foreign buyers. Based on legislative requirements, USDA makes a total of over $5 billion in government loan guarantees available each year to foreign buyers of U.S. agricultural commodities. Since the programs began in the 1980s, USDA has paid out about $5.7 billion to banks on loans in default, and we estimate significant future increases in defaults if high-risk foreign buyers continue to participate.

Past operations of the Export Credit Guarantee programs have incurred significant losses because USDA has provided a large amount in guarantees to high-risk countries, such as Iraq and the successor states of the former Soviet Union. Guarantees had been extended to such high-risk countries on the basis of market development concerns and foreign policy considerations. Our prior testimonies have detailed the weaknesses and difficulties in managing these programs. FAS has traditionally had a limited role in monitoring these programs despite significant government exposure to large financial losses.

Market Promotion Program (MPP)

MPP was created to encourage the export of U.S. agricultural products through funding for consumer-related promotions of high-value generic and brand-name products. FAS turns the government funds over to not-for-profit associations that either run market promotion programs themselves or pass the funds along to private-for-profit companies to spend on their own market promotion activities. FAS retains little control over the funds provided to the private-for-profit companies. In the past, we have identified a number of management problems in the administration of this program, including funding "additionality" and participant "graduation."

First, concerning funding additionality, FAS has no assurance that MPP funds actually increase the overseas promotional activities of participants in the program. FAS does not require participants to demonstrate that funds under the program will be used to increase promotional activities. The lack of such a requirement affords participants the opportunity to substitute government funds for promotional expenditures that they would possibly have undertaken with their own funds. FAS has no way of knowing the extent of this practice. In our past work, we found some examples that suggest that this situation exists. We believe that the participation of firms in the program with significant prior export experience and with multimillion-dollar advertising budgets suggests that the opportunity to substitute government funds for their own exists, and greater controls are needed over the use of these program funds to ensure increased promotional activity.

An example of potential funding substitution may be found by looking at the federally authorized commodities research and promotion programs, commonly known as "check-off" programs. Under check-off programs, designated producer organizations collect millions of dollars from producers and growers of agricultural commodities such as cotton, beef, and soybeans. The bulk of check-off funds are used to promote the product in the United States, while relatively small amounts of check-off funds are used to promote overseas sales. Because FAS pays for overseas market promotions for these commodities through the Market Promotion and Cooperator programs, the producer organizations have less need to use their own check-off funds for overseas promotions.

Second, concerning graduation, FAS has no restrictions on the length of time that participants can continue to receive MPP funds. In the Food, Agriculture, Conservation, and Trade Act of 1990, Congress directed FAS to evaluate each MPP participant to determine whether continued program assistance was necessary for market maintenance, but FAS has not developed specific criteria to make the required evaluations. We believe that providing for the phaseout of government funding would make clear that these funds are not an entitlement. Furthermore, such action could increase the number of firms that benefit from the programs and would give the taxpayer greater assurance that these funds are being used to help firms enter new markets.

Program evaluations are important to ensure that government funds for export promotion activities are used effectively. We recognize that the large number of variables that determine export levels makes it extremely difficult to demonstrate a one-to-one relationship between program-funded promotion activities and increased exports. But additional evaluations could be done. We found that few program evaluations were completed from fiscal years 1986 through 1992. In general, FAS has acknowledged weaknesses in this area and the need to conduct a greater number of evaluations. FAS representatives cited limited staff and travel funds as factors accounting for the small number of program evaluations.

OVERSEAS STAFF RESOURCES BURDENED BY HEAVY REPORTING REQUIREMENTS

Especially in a time of budgetary constraints, FAS needs to assess how effectively it uses its resources. Our ongoing review of FAS resource utilization indicates that FAS devotes substantial resources to reporting on commodities abroad. FAS estimated, based on a 1991 survey of its overseas posts, that over one-third of its overseas staff resources were devoted to reporting. However, much of its reporting is put to little use. We believe that FAS can better utilize its resources by significantly reducing such reporting, thereby allowing its overseas attaches more time to devote to developing markets for U.S. commodities and to engage in trade policy activities.

FAS' overseas attaches submit about 2,300 scheduled commodity reports a year from around the world. The reports are intended to support USDA programs and to assist FAS in its trade policy work. In addition, the reports are used to prepare commodity circulars that provide the U.S. agricultural industry with information about competition and demand for U.S. farm products.

However, not all of the commodity reporting is useful to either USDA or the U.S. agricultural industry. For example, FAS requires comprehensive reports on honey from seven of its overseas posts. These reports are used primarily to inform U.S.

honey producers about potential exports from foreign countries to the United States. Nearly all the honey producers we spoke to said they have other sources of information that they rely on to monitor foreign competition in the U.S. market. Moreover, the honey reports play virtually no role in increasing U.S. exports, partly because FAS does not report on the honey situation in many of the U.S. export markets.

FAS also spends significant resources reporting on coffee from around the world, even though the United States exports virtually no U.S.-grown coffee. FAS says that reporting on world coffee production services U.S. coffee roasters and helps smooth out prices. But the roasters we spoke to said they have limited need for USDA's data. They rely more on their trade contacts and on other private sources of information. Many of those involved in coffee trade said that if USDA were to reduce its coffee reporting, private reporting firms would quickly fill the gap.

FAS reports on the cotton situation in 39 countries. We found that the cotton reports do serve to support USDA programs and provide data helpful to U.S. exporters. However, we also found that the reports often contain far more detail than is necessary to meet their objectives. FAS has recently introduced "truncated reports," in which attaches provide only the basic data and a few pages of narrative discussing major changes; 8 of its 39 cotton-reporting posts are allowed to do truncated reports. Our discussions with the users of the cotton reports indicate that FAS could considerably expand the use of truncated reporting and still adequately meet the information needs of both USDA and the cotton industry.

Furthermore, FAS does not make the most efficient use of the information it collects. Despite the great advances in information technology that have occurred over the years, FAS still communicates information to U.S. agriculture primarily through written circulars. FAS makes only limited use of electronic information technology to deliver data to industry. Industry users told us that the data that are available electronically are often not easily accessible or timely.

FAS has recently undertaken a major review of its reporting and has tentatively proposed a new reporting schedule. The new schedule cuts the reporting burden for some of its overseas posts but increases reporting for others. In addition, it shifts some reporting from bulk commodities to high-value products, an increasingly important share of agricultural exports.

We believe the new schedule is a step in the right direction in its efforts to streamline reporting requirements and make them more useful. However, we think that FAS' reporting review did not go far enough. The agency did not adequately evaluate the need for each of its commodity reports; FAS did not systematically communicate with the users of the reports in U.S. agriculture to learn the true extent of their information needs. U.S. agriculture has at its disposal an increasing number of private sources of basic information on world agriculture. In a time of budgetary constraints and increasing global competition, FAS cannot continue to collect information that is nonessential, rather than devote its resources to effectively carry out its other export promotion responsibilities.

NEED TO IMPROVE STRATEGIC PLANNING

Strategic planning is very important for the efficient management of government resources. My final remarks will address the need for FAS to improve its strategic planning, particularly through its Long-term Agricultural Trade Strategy (LATS), and its participation in the Trade Promotion Coordinating Committee's (TPCC) governmentwide export promotion plan.

Long-Term Agricultural Trade Strategy

Required under the Food, Agriculture, Conservation, and Trade Act of 1990, LATS was intended to guide the Secretary of Agriculture in carrying out federal programs designed to promote the export of U.S. agricultural commodities. Among other things, the act called for the designation of priority growth markets and the development of country marketing plans, which set forth strategies for these markets.

USDA submitted LATS to Congress in January 1993, about 15 months late. FAS stresses that LATS is a guide for USDA's efforts to promote agricultural trade. It is not intended as a form of managed trade that sets out export strategies for the private sector. According to FAS, LATS describes general goals for agricultural trade, the resources USDA can utilize, and the tactics it can employ in facilitating trade.

LATS was developed largely within FAS, with little input from elsewhere in USDA or from other federal agencies. The document includes narrative on (1) trends in U.S. market share, (2) prospects for sales to developed and developing countries, and (3) USDA strategies for facilitating exports. This narrative discusses areas such as trade policy, domestic programs, and export programs.

In our opinion, LATS needs additional work to become a useful management tool. Our review indicates that LATS does little to set meaningful priorities for its programs and resources. For example, LATS calls for "the fullest possible use of all export assistance programs" without identifying which programs or activities are critical or most important.

The compilation of country marketing plans was also completed in January 1993. The compilation listed the top 15 country markets for bulk commodities and the top 15 for consumer-oriented products. Between three and nine priority commodities were listed for each country, with a short discussion of ways of maintaining or increasing U.S. exports of each commodity. The document did not prioritize the country markets nor did it prioritize commodities within each of these countries. In our view, more specifics are needed on priorities and plans in order to enhance the effective use of the U.S. export promotion dollar.

Governmentwide Strategic Planning for Export Promotion

In September 1993, the Trade Promotion Coordinating Committee released a report, "Toward a National Export Strategy," on its efforts to develop a governmentwide strategic plan for export promotion programs. TPCC has representation from 19 federal agencies, including USDA. The Export Enhancement Act of 1992 requires TPCC to produce a plan that, among other things, establishes priorities for federal export promotion, sets out a strategy for federal export promotion activities, and proposes a unified budget for federal export promotion programs.

While the report included significant, positive steps to strengthen federal export promotion efforts, key components have yet to be developed in areas where TPCC was unable to reach consensus, namely governmentwide priorities and a unified export promotion budget. The report does make a firm commitment to complete the tasks within the context of the 1995 budget.

To be successful, TPPC's effort, from here on, will require continued, sustained, high-level administration involvement and support, and the active participation of the agencies with the preponderance of the government resources devoted to export promotion programs: the Department of Commerce, the U.S. Export-Import Bank, the Small Business Administration, the Agency for International Development, and USDA. We are concerned, however, with the apparent lack of USDA involvement in the governmentwide strategy. USDA is hardly mentioned within the text of the TPCC report. This absence is particularly troubling since USDA receives the bulk of the federal export promotion budget. It will be very difficult for TPCC to fulfill its legislative mandate without the full participation and support of USDA.

- - - -

Mr. Chairmen and Members of the Subcommittees, this concludes my prepared statement. I will be happy to answer any questions you may have.

(280080)

Ordering Information

The first copy of each GAO report and testimony is free. Additional copies are $2 each. Orders should be sent to the following address, accompanied by a check or money order made out to the Superintendent of Documents, when necessary. Orders for 100 or more copies to be mailed to a single address are discounted 25 percent.

Orders by mail:

U.S. General Accounting Office
P.O. Box 6015
Gaithersburg, MD 20884-6015

or visit:

Room 1000
700 4th St. NW (corner of 4th and G Sts. NW)
U.S. General Accounting Office
Washington, DC

Orders may also be placed by calling (202) 512-6000
or by using fax number (301) 258-4066.

United States
General Accounting Office
Washington, D.C. 20548

Official Business
Penalty for Private Use $300

First-Class Mail
Postage & Fees Paid
GAO
Permit No. G100