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INTERNATIONAL TRADE ADMINISTRATION

Final Inspection Report
US&FCS Post in Indonesia

Inspection Report No. IPE-9285 / May 1997

Office of Inspections and Program Evaluations

TABLE OF CONTENTS

EXECUTIVE SUMMARY

Indonesia's islands span almost 4,000 miles across the Equator, and at 190 million, Indonesia has the largest population in Southeast Asia. Because of its size and its estimated growth potential for exports from the United States, the Commerce Department designated Indonesia as a Big Emerging Market, along with the other members of the Association of South East Asian Nations. Indonesia's imports from the United States were $3.4 billion in 1995, up from $2.8 billion in 1993. The United States is Indonesia's third largest trading partner (behind Japan and the European Union), and the potential for increased U.S. exports is high. However, the U.S. and Foreign Commercial Service's (US&FCS) task of promoting U.S. exports to Indonesia is made difficult by the distance U.S.-based businesses must travel to make contacts, the Indonesian government's business practices, recent government moves to make "voluntary" corporate donations to charity mandatory, and other obstacles U.S. businesses often face when developing a business enterprise in a foreign culture.

The OIG conducted an on-site inspection of the US&FCS operations in Jakarta, Indonesia, during the week of September 23-27, 1996. The inspection team observed US&FCS post operations and activities at both of its locations in Jakarta—the U.S. embassy and the Ronald H. Brown Commercial Center. We interviewed each available staff member at post, officials of other federal agencies located within the embassy, appropriate Indonesian government officials, representatives of various U.S. and foreign companies conducting business in Jakarta, and staff at US&FCS and ITA headquarters in Washington.

Based on our inspection, we concluded that the US&FCS post in Jakarta, consisting of both the commercial center and the embassy locations, has generally been doing an excellent job in pursuing its various activities and objectives in support of US&FCS's mission. We attribute the post's success in large measure to the competence and dedication of the senior commercial officer and his staff. At the same time, we noted that the post's ability to succeed was greatly taxed by the uncertainty and difficulties surrounding the issue of how to best incorporate the new commercial center concept into the post's overall operation. The following are our specific observations.

- **The post is effectively pursuing its mission and objectives**. We found that (1) the post management effectively directs the staff, (2) most of the post activities to assist U.S. firms in penetrating and thriving in the Indonesian market are based on a well-thought-out and developed plan, (3) the post plays an active and well-regarded role within the embassy mission, and (4) the staff competently provides US&FCS core and innovative services and activities to help U.S. businesses. Some of the innovative ideas developed by the staff and management in Indonesia include its marketing CD-ROM disk, a high-technology multi-catalog trade show booth, and commercial center membership kits. (See page 5.)

- **The commercial center concept, though useful, was implemented in Jakarta without sound objectives or justification.** The activities and operation of US&FCS in Jakarta are similar to those of US&FCS in many other countries. In the narrow sense of its legislated purpose to provide increased resources to the promotion of trade, the commercial center concept has been successful. Unfortunately, confusion about how to best use the commercial center facilities to achieve the broader purpose of facilitating commercial ties and trade has plagued the implementation of the commercial center concept in Jakarta. Officials in US&FCS and elsewhere in ITA have attempted unnecessarily to distinguish the US&FCS operations at the commercial center from what a standard post could otherwise do. By not having sound objectives or justification for the center prior to building out the facility, US&FCS has experienced mixed success, staff frustration, and questionable reporting burdens.

  To date, it appears that the post in Jakarta has benefitted from its designation as trustee of a commercial center facility, resulting both in US&FCS moving out of the embassy and a significant increase in the post's total budget allocation. However, a shift in initial plans for occupancy of the commercial center has meant that US&FCS has had to undertake two renovations in the commercial center (with total cost estimates over $700,000) to get its leased space in a configuration congruent with what the post in Jakarta believes is its appropriate mission. (See page 8.)

- **The US-AEP role within the post is not fully rationalized.** The U.S.-Asia Environmental Partnership is a cooperative effort with the U.S. Agency for International Development (USAID) to promote sustained development while improving the environment in Asia. The US-AEP contractors report to the senior commercial officer and are collocated in the commercial center. They function much like US&FCS commercial specialists, except they are dedicated solely to environmental technologies. While US&FCS currently funds only about 50 percent of the contractors' cost, its share will increase to about 75 percent over the next two years, making environmental technologies the most costly sector of its work portfolio in Indonesia. We question whether the current agreement with USAID results in an effective use of US&FCS resources. US&FCS should determine whether its program adequately benefits from its share of the US-AEP funding and, if not, renegotiate its agreement with USAID or reduce the number of US-AEP positions it funds. (See page 16.)

- **BXA export licensing checks are not conducted according to prescribed procedures.** Contrary to guidance provided by Commerce's Bureau of Export Administration (BXA), foreign service nationals at the post are conducting pre-license checks and post-shipment verifications requested by BXA in support of its export licensing and control responsibilities. BXA was unaware of the post's noncompliance because the post failed to

(1) request or receive a waiver from BXA to use foreign service nationals and (2) properly identify who conducted the checks in its response cables to BXA. To improve its BXA check process, the post needs to comply with BXA's policy on who may conduct BXA checks and also consult with other sections or agencies in the embassy to increase access to potentially important information about the local business or organization receiving the controlled items. (See page 18.)

- **Improper procurement practices persist, as training needs go largely unmet.** During our inspection, we identified a series of improper procurements at the post. Most involved the post engaging contractors for services or products without seeking approval from authorized contracting officials at the embassy. Similar problems have been noted in the past during internal US&FCS management reviews. Post officers should receive procurement training as soon as possible and regularly seek guidance from the embassy's procurement officials. In addition, US&FCS headquarters should provide the needed financial management training and more user-friendly administrative guidance to the post's employees for their day-to-day reference. (See page 20.)

On page 25, we offer a series of recommendations to the Assistant Secretary and Director General of the U.S. and Foreign Commercial Service to address our concerns.

In its April 14, 1997, written response to our draft report, the Assistant Secretary and Director General of the US&FCS generally agreed with most of our observations and recommendations. The actions taken and those planned—when implemented—will satisfy the intent of our recommendations. We have provided additional information in certain areas to address comments provided in their response. A copy of the agency's response to the draft report is attached in its entirety.

INTRODUCTION

Pursuant to the authority of the Inspector General Act of 1978, as amended, and the requirements of the Omnibus Trade and Competitiveness Act of 1988, the Office of Inspector General conducted an inspection of the U.S. and Foreign Commercial Service (US&FCS) operations in Jakarta, Indonesia, during the period September 23-27, 1996. The visit was part of a larger inspection trip, during which we also visited US&FCS posts in Thailand and Malaysia. These posts will be covered in separate reports. We discussed some of our preliminary observations with the Ambassador and the senior commercial officer. In addition, we briefed the Director General and regional managers in headquarters on October 15, 1996. Because several of the issues and concerns we observed in Indonesia involved other members of the US&FCS network and the International Trade Administration (ITA) headquarters, we conducted additional work in ITA headquarters and discussed pertinent matters with other US&FCS field personnel. This inspection was conducted in accordance with the *Quality Standards for Inspections* issued by the President's Council on Integrity and Efficiency.

Inspections are special reviews that the OIG undertakes to provide agency managers with timely information about operations, including current and foreseeable problems. Inspections are also done to detect and prevent fraud, waste, and abuse and to encourage effective, efficient, and economical operations. By highlighting problems, the OIG hopes to help managers move quickly to address those identified during the inspection and avoid their recurrence in the future. By the same token, inspections may also highlight effective programs or operations, particularly if they may be useful or adaptable for agency managers or program operations elsewhere.

PURPOSE AND SCOPE

The purpose of the inspection was to evaluate the effectiveness of the US&FCS post in Indonesia in assisting U.S. businesses to expand their trade and business opportunities in Indonesia. We also looked at the policies, procedures, and practices being followed by the post to carry out its assigned functions and activities. This included determining whether established goals were being achieved, evaluating the economy and efficiency of operations, and assessing the post's compliance with applicable regulations and instructions. We also examined the coordination between the post and other organizations in achieving the overall goals of ITA and the Department.

In conducting the inspection, we (1) reviewed the organizational structure and operating approaches used in administering activities at the post; (2) interviewed appropriate Commerce Department, State Department, other U.S. government, private sector, and Indonesian government officials; and (3) examined pertinent files and records relating to the post's operations. The inspection also included a review of headquarters and district office activities that support the post's operations.

BACKGROUND

The International Trade Administration (ITA) administers a variety of programs and activities designed to increase U.S. exports. In addition to its headquarters operations, ITA maintains a network of U.S. Export Assistance Centers, district offices, domestic branch offices, and foreign posts in 75 countries.

The U.S. and Foreign Commercial Service, located at ITA headquarters and in domestic and foreign field offices, is structured to provide business firms with a base of export assistance support stretching from individual U.S. cities to specific foreign markets. Domestic operations are conducted through a network of 97 domestic offices, including 19 regional export assistance centers. Personnel at these offices primarily counsel U.S. firms on exporting, including how to get started, how and where to find foreign buyers, and how to successfully compete for foreign business.

The 140 foreign commercial offices perform a number of activities that are directed at improving the trade position of the United States, including identifying trade or investment opportunities, finding potential representatives or agents, providing business consultation to U.S. visitors at foreign posts, making business appointments with potential trading partners or host government officials, assisting in the implementation of export controls and other trade regulation activities, and preparing market research on a country's "best prospect" industries.

The overseas posts are generally staffed by three types of professionals: (1) American career officers within the foreign service, who rotate among posts on about three-year assignments and who are intended to provide the primary professional contact with U.S. businesses, the U.S. government, and senior foreign business and government officials as necessary; (2) career foreign service nationals, who provide critical local continuity through the maintenance of foreign business and government contacts, as well as most of the specialized and general market research and business consulting; and (3) personal service contractors, who provide the balance of support through specialized services beyond what current career staffing levels permit.

Indonesia is a member of the Association of Southeast Asian Nations (ASEAN), along with Brunei, Malaysia, the Philippines, Singapore, Thailand, and Vietnam. The Secretariat of ASEAN is located in Indonesia's capital city, Jakarta. By establishing ASEAN in 1967, the countries allied to strengthen regional security, cohesion, and self-reliance, while emphasizing economic, social, and cultural cooperation and development. More recently, ASEAN has focused on economic development and trade promotion among the members. The countries are developing the ASEAN Free Trade Area, which aims to reduce tariffs among members to 0-5 percent by 2003.

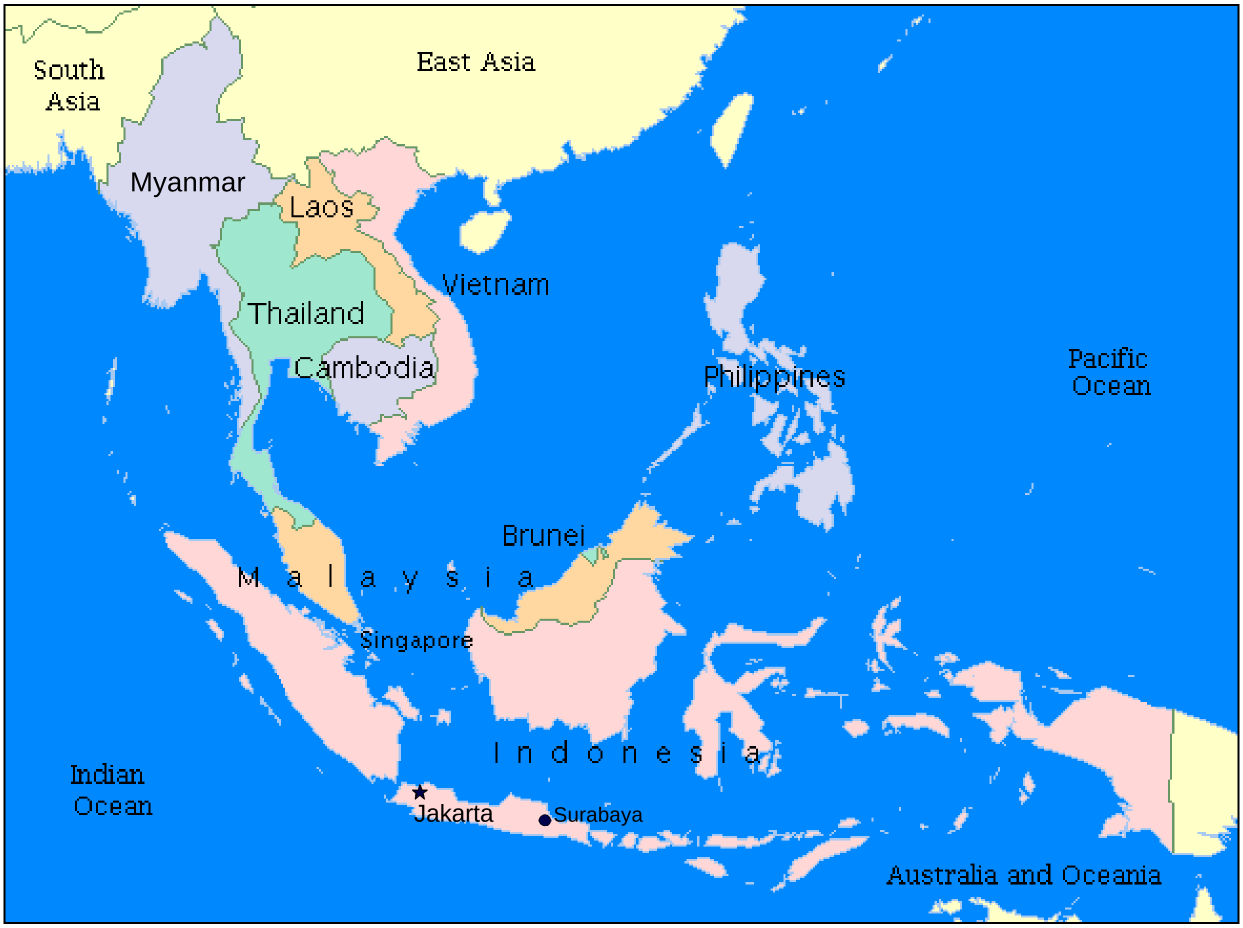

Figure 1

Acknowledging the potential opportunities from this regional coordination, the Clinton Administration designated Indonesia and the other ASEAN countries as a Big Emerging Market (BEM) for U.S. exports. Other BEMs include the Chinese Economic Area (China, Hong Kong, and Taiwan), South Korea, India, South Africa, Poland, Turkey, Mexico, Brazil, and Argentina. ASEAN and the nine other economies are expected to account for 40 percent of total world imports and growth over the next 15 years. To compensate for the fierce international competition and significant barriers to trade in most of these economies, the BEMs strategy is designed to assist U.S. firms by securing market access, providing financing, supporting U.S. companies seeking to win major projects, and supplying market information. ITA's major effort to implement the BEM strategy has been to increase staffing and budget, when available, in these key economies. Since October 1993, 118 additional personnel have been allocated to BEM countries.

US&FCS operates out of three locations in Indonesia—two offices in Jakarta, and the U.S. consulate in Surabaya. The only US&FCS presence in Surabaya is one foreign service national who is periodically visited by a U.S. commercial officer. We did not review the operations of the Surabaya office. In Jakarta, one office is within the U.S. embassy and the other is located in a central commercial district. The second office, the Ronald H. Brown Commercial Center, is shared by other government trade promotion agencies. The US&FCS staff in Jakarta includes six American officers, ten foreign service nationals, and nine personal service contractors, with a combined budget of just over $1.7 million for fiscal year 1996 covering an array of US&FCS activities, products, and services. Additionally, three contractors are dedicated to promoting U.S. environmental technologies through the U.S.-Asia Environmental Partnership program. US&FCS's 1996 annual overseas resource allocation model, which is used to support allocation decisions, ranked Indonesia 20th out of 69 countries, up from 23rd in 1994.

Indonesia is composed of over 13,000 islands (6,000 inhabited), spanning almost 4,000 miles across the Equator between the rest of southeast Asia, Australia, and the Indian and Pacific Oceans. Its population of over 190 million, growing annually at about 1.6 percent, is the largest population in Southeast Asia. The average Indonesian per capita income is growing at about 5 percent annually, and the number of relatively wealthy urban consumers has now grown to about one-fifth of the population. The growth in the middle class is creating opportunities for increased trade in consumer goods. And though Indonesia's high interest rates and associated reduced borrowing have a dampening effect on imports, many categories of imports are still experiencing double-digit growth rates.

Indonesia's imports from the United States were $3.4 billion in 1995, up from $2.8 billion in 1993. Though Indonesia is the largest recipient of U.S. Export-Import Bank loans, the United States ranks only seventh on Indonesia's sources of direct foreign investment. The United States is Indonesia's third largest trading partner (behind Japan and the European Union), and the potential for increased U.S. exports is high. The economy continues to rely heavily on agriculture and the resource-extraction sectors of petroleum and natural gas production, cement, and mining. Yet the increase in the population and its income ensures that investments in infrastructure, including high technologies, will also continue and that the demand for technical and financial services will grow.

Among the many challenges facing U.S. businesses as they attempt to make in-roads into Indonesian markets, are Indonesia's location almost halfway around the planet from the United States, limited infrastructure in rural areas suitable to support manufacturing, a legal system of property rights not as well defined as that in the United States, fierce competition from the Japanese and Australians who have long considered Indonesia a "backyard" for their businesses, and a national government notorious for its corruption and favoritism to friends and relatives of its leaders. While the government generally attempts to encourage a stable business climate, guidelines describing "voluntary" corporate donations to charity have more recently been interpreted by the government as mandatory, causing unease among some U.S. businesses in Indonesia.

OBSERVATIONS AND CONCLUSIONS

I. POST IS EFFECTIVELY PURSUING ITS MISSION AND OBJECTIVES

From our interviews with the US&FCS staff, embassy officials, other U.S. and Indonesian government officials, and U.S. companies, the US&FCS appears to be effectively pursuing its mission and objectives of assisting U.S. firms in penetrating the Indonesian market. The post's core activities consist primarily of the gold key service, agent/distributor service, international market insights, industry sector analysis, trade opportunities program, international buyer program, customized market analysis, and assisting matchmaker business delegations and trade fair and mission attendees. (See Appendix II for a description of each core program or activity.) As discussed further below, the post also initiated a number of innovative services designed to meet the market specific needs of doing business in Indonesia.

Business representatives were generally pleased with the services provided by the post. In addition, they agreed that the post's location in commercial office space outside the embassy (in Jakarta's World Trade Center complex) provides convenient access to US&FCS and other federal agencies involved in export promotion. US&FCS is collocated in the Ronald H. Brown Commercial Center with the U.S.-Asia Environmental Partnership program; elements of the U.S. Agency for International Development; the State of California Trade and Investment Office; and, by late March 1997, the U.S. Department of Agriculture's foreign agricultural service.

We found that (1) the post management effectively directed the staff, (2) post activities were based on a well-thought-out and developed plan, (3) the staff competently provided US&FCS core and innovative services and activities to help U.S. businesses, and (4) the post plays an active and well-regarded role within the embassy mission. The US&FCS post in Indonesia has been aggressive in its pursuit of innovation, while recognizing that more opportunities remain.

During our inspection, we met with each available staff member at post. We were impressed by the dedication, knowledge, and experience of most foreign service nationals and personal service contractors we met. Most stated that the management team of American officers not only was interested in their ideas, but allowed a forum for those ideas to be formally incorporated into the post's fiscal year plan. The forum was the post's second annual off-site planning workshop. For the fiscal year 1997 plan, the workshop was held September 4-6, 1996, in Bandung, Indonesia. The workshop's objectives were to (1) assess successes and areas of weaknesses, (2) plan strategically to better assist clients, (3) ensure that new staff are integrated into the team, and (4) address any communication issues that may hinder success. According to most of the staff, the workshop was a success. In addition to maintaining good staff morale, there were tangible results. Several innovative approaches to improving US&FCS service to U.S. businesses were discussed at the workshop and are now being implemented. Other goals and activities developed at the workshop have been reflected in the performance plans of the commercial staff.

The following are a few examples of innovative ideas developed by the staff and management in Indonesia:

> **Commercial center marketing on CD-ROM.** The post is promoting the commercial center resources and services with a CD-ROM disk that explains the US&FCS mission, highlights the presence of the commercial center, describes general business opportunities in Indonesia, and includes invitations from senior Indonesian officials to U.S. businesses. Sent to US&FCS district offices, US&FCS headquarters, U.S.-based trade associations, and other multiplier organizations overseas, the CD-ROM is a creative multimedia attempt to reach and encourage U.S. firms to do business in Indonesia.
>
> **Interactive marketing system (I-Mark).** The post is developing an interactive marketing system that is essentially a high-technology multi-catalog trade show booth. The booth is a self-contained multimedia exhibition center that showcases U.S. products through brochures, videos, CD-ROM, video-conferencing, and even web pages via the Internet. The post plans to display one unit at every major Indonesian trade show and maintain another on permanent display in the commercial center. Visitors would register and complete an "interest survey" on a computer, identifying their specific interests in potential U.S. products or contacts. The post hopes to market the booth to U.S. firms via its CD-ROM, the Internet, and the membership kit noted below as a cheaper alternative to attending a trade show to collect trade leads. The post has also taken advantage of the programming skills of an American personal services contractor hired, in part, to develop a database to generally manage business contacts and to automate the production of client lists requested by U.S. businesses from the I-Mark.
>
> **Commercial center membership kits.** To provide additional incentives for local Indonesian businesses to involve themselves with the commercial center and increase potential contact with U.S. businesses, the post has developed commercial center "memberships." Membership registrations are free and will be encouraged with the I-Mark and promotional videos at trade shows. Membership kits will include general information about how US&FCS and its commercial center can help connect members with U.S. businesses of interest. A bimonthly magazine is also planned for members. The US&FCS post in Indonesia believes that this endeavor will prove to be another effective tool in marketing the services of the US&FCS to a wider audience.

Opportunities for further innovations exist to improve the assistance US&FCS offers U.S. firms attempting to do business in Indonesia. We explored, for example, with the staff and the senior commercial officer (SCO) the possibility of expanding the contacts database system to include the tracking of US&FCS products, automation of client follow-up and other routine office work, and partial automation of other products like the agent/distributor service. The post should also consider working with the embassy's economic section and the SCOs in other ASEAN countries to prepare a handbook or other written material introducing U.S. businesses to the potential for arbitrage opportunities in the new ASEAN free trade area; that is, exploring favorable import/re-export duties and regulations among ASEAN nations to bring their products to the local markets via the lowest cost route. The opportunity also exists for US&FCS to encourage large U.S. firms already present in Indonesia to provide trade leads and create opportunities for smaller U.S. firms as suppliers and subcontractors on some of the major projects and contracts with which the larger firms are involved.

Post relations with the ambassador and other embassy officials are good

According to our interviews with officials throughout the embassy, the US&FCS post in Indonesia generally works well with other embassy sections. The Ambassador stated that the commercial section effectively interacts with other pertinent sections in the mission's weekly country team and economic/commercial meetings. The SCO serves as vice-chair of the economic/commercial meetings.

The post's work is well respected by the Ambassador and key members of the mission. Coordination between the commercial, economic, agriculture, and political sections appears effective and useful to U.S. businesses. To illustrate, during the Ambassador's weekly economic/commercial briefing we attended, US&FCS commercial officers were actively involved in the discussion, presenting the status of their projects and providing useful input into other sections' presentations. They offered significant and valuable input on such issues as intellectual property rights protection, impediments to U.S. automobile manufacturers attempting to enter the Indonesian market, the U.S. government's response to Indonesia's unfair trade practices in the automotive industry, and the decline of U.S. investments in Indonesia and its relative impact on U.S. business interests.

In responding to our draft report, the Director General stated that our recommendations on this issue were excellent suggestions and the very kinds of things they encourage all of their posts to do. She also stated that the US&FCS post in Jakarta "is already expanding and ever greening its trade contacts database and developing a client management system. With the renovation largely underway, post has begun its extensive outreach to the sources of target clients, small and medium enterprises, including domestic field offices, the CS[1] Asia-Pacific Team, [Export Promotion Service] trade events and information programs, and selected TD offices. Post is supplying promotional literature, including a 'WHY INDONESIA' kit to these channels."

[1]The U.S. and Foreign Commercial Service is also known as the Commercial Service of the United States, or "Commercial Service" (CS).

II. COMMERCIAL CENTER CONCEPT, THOUGH USEFUL, WAS IMPLEMENTED IN JAKARTA WITHOUT SOUND OBJECTIVES OR JUSTIFICATION

Our inspection team visited the commercial center facility in Jakarta to review US&FCS activities there. We did not attempt to evaluate the entire commercial center program, which includes centers in São Paulo, Brazil, and Shanghai, China, with others being planned. Rather, the findings in this section are based on and apply to only the commercial center in Jakarta. Specifically, we found that (1) the designation of a commercial center in Jakarta has resulted in increased resources for the post; (2) resources used for export promotion activities have been used effectively and creatively to expand the existing US&FCS program (see page 5); but (3) US&FCS headquarters' failure to adequately assess in advance the Indonesian market demands for a commercial center has caused several problems. Particularly, this poor planning has resulted in persistent confusion and some conflict between the post and US&FCS headquarters about the appropriate mission of the center. US&FCS has incurred significant expenses to reconfigure the center's space to adjust to its ever-changing mission. In addition, US&FCS headquarters has demanded that the post arbitrarily allocate activities and programmatic successes between "US&FCS Indonesia" and the "Jakarta commercial center" when there is no practical or functional distinction between the two.

Title IV of the Jobs Through Exports Act of 1992 congressionally mandated the establishment of U.S. commercial center facilities under a five-year pilot program. The Act states that the purpose of the centers is "*to provide additional resources* for the promotion of exports of United States goods and services to the host countries, by familiarizing United States exporters with the industries, markets, and customs of the host countries, thus facilitating commercial ties and trade" [emphasis added]. As described by US&FCS, commercial center facilities symbolize a new commercial partnership, bringing together U.S. and host country businesses within a unique multi-purpose one-stop-shop facility to assist U.S. businesses seeking trade opportunities in the host country and throughout the region. The centers were designed to collocate US&FCS with other U.S. government trade-related agencies, thereby improving interagency coordination and providing easier access for U.S. and host country firms. The commercial centers also were intended to provide office space and support services to U.S. exporters, serving as their "home away from home" in these foreign markets.

In the narrower sense of its legislated purpose, the commercial center concept in Jakarta has been successful in getting more resources for the US&FCS post there. Unfortunately, confusion about how to use a commercial center facility to achieve the broader purpose to facilitate commercial ties and trade has plagued implementation of the commercial center concept. Officials in US&FCS and elsewhere in ITA have attempted unnecessarily to distinguish the US&FCS operations at the commercial center facility from what a standard post could otherwise do, and placed questionable reporting burdens on the post.

We *do not* believe these problems are directly attributable to the "commercial center program" or its concept of collocating US&FCS in central commercial districts with multipliers and U.S. businesses. We *do* believe they are inherent in attempts to implement new programs in the field *from Washington*, without early and participatory involvement of those in the field who are perhaps best able to recommend appropriate implementation strategies.

In fiscal year 1994, when ITA decided to open a commercial center facility in Jakarta, US&FCS authorized over $400,000 for the commercial center build-out. The build-out included leasing and renovating 10,066 square feet of commercial office space, purchasing new furniture and equipment, and moving much of the US&FCS staff to the new location. Additional funds were allocated under this commercial center account to cover other "commercial-center-specific" costs, including support staff, office supplies, and incidental costs of the SCO to oversee the center. As illustrated in Figure 2 at right, US&FCS also incrementally increased the post's budget from $524,000 in fiscal year 1993 to almost $1.2 million in 1996. At the time of this writing, the post and headquarters were still negotiating the allocation of the fiscal year 1997 budget between the post and the commercial center, but the total amount was approximately $1.7 million.

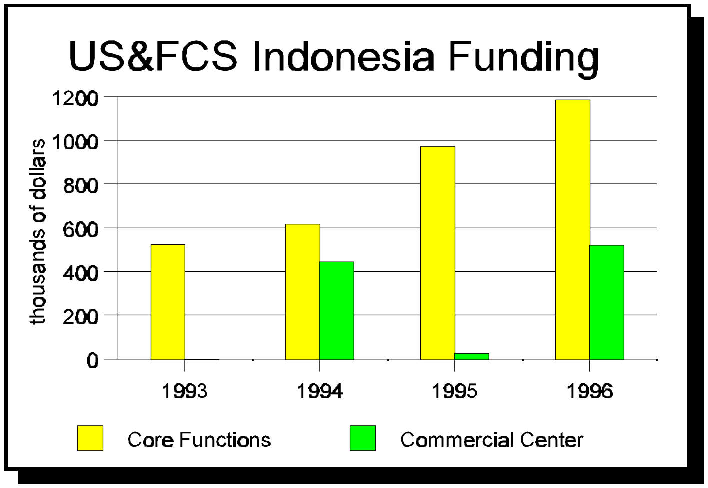

Figure 2

According to US&FCS's overseas resource allocation models, which are used by US&FCS to support resource allocation decisions, Indonesia's ranking increased from 23rd in 1994 to 20th in 1996 out of 69 countries. Since the post's hiring authority increased by only one full-time equivalent position during this influx of new resources, US&FCS Indonesia has increased its staff mostly through greater reliance on personal service contractors. (See Figure 3.)

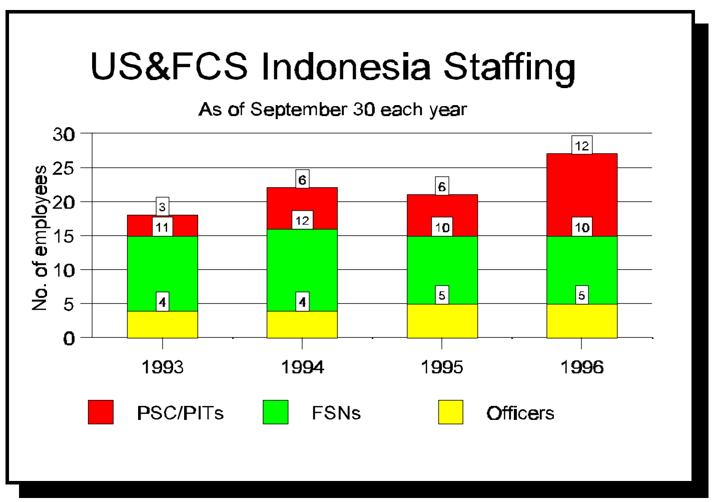

Figure 3

In the agency's response to our draft report, a great deal of attention was given to our comments on the commercial center in Jakarta. Their response suggests that although our report was insightful, there is additional information on the commercial center that may not have been available during the drafting of our report. The response explained that "people closest to bringing up the Jakarta Center, including members of my senior management team, had moved on, and staff who have since inherited the Commercial Center portfolio, were not in place prior to the review."

The Director General explained her understanding of the "genesis" of the Jakarta commercial center. Some of the Director General's comments contradict statements from others who were senior managers within US&FCS during the evolution of the Jakarta commercial center. We address those contradictions following the sections to which they pertain.

A. The Center's Goals Have Been Evolving, and Their Achievement Has Been Mixed

The center facility was formally opened by the Secretary of Commerce during the November 1994 Asia Pacific Economic Conference's ministers meetings in Jakarta. From 1994 through early 1996, US&FCS directed the commercial center facility to focus on several objectives, as laid out in an ITA strategy paper. In particular, US&FCS headquarters tried to get the post to (1) rent space and provide fee-based business office support services to U.S. businesses, (2) collocate with trade-related agencies and organizations, and (3) rent out their multi-purpose conference room. Success has been mixed.

For the first two years of the center, U.S. Information Service (USIS) occupied over one-half of the commercial space; but disagreements between US&FCS and USIS headquarters over cost and space allocation resulted in USIS relocating back to the embassy in February 1996. The State of California has just finished its first year of leasing space from the center, but a Department of Commerce grant is paying for one-half the cost of that lease. The post has periodically rented other space to universities and U.S. businesses, but cannot compete with other locally and readily available commercial space alternatives. For example, we visited competitively priced commercial space available in a conveniently located, attractive, modern office building complete with flexible space arrangements, conference room facilities, security, receptionist, telecommunications, and a full range of business service options. There has been little demand for the post's fee-based common use space, such as the multi-purpose room and display areas. After USIS moved out, US&FCS decided to further renovate the space within the center, making it even more difficult to find lessees in the interim.

Recognizing the difficulty in competing with local alternatives for commercial space and wanting to increase utilization of the space vacated by USIS, in early 1996 US&FCS refocused its efforts more narrowly on finding "multiplier" trade promotion organizations to collocate with the post within the center. To accommodate U.S. Department of Agriculture's agriculture trade office and to create more individual office spaces for the US&FCS staff, US&FCS needed to reconfigure the space vacated by USIS. Different sources within US&FCS provided us cost estimates of the additional build-out, ranging from $282,000 to $338,000 with the latter estimate not including approximately $55,000 in security costs allocated in fiscal year 1997. The current renovations were completed in April 1997. The commercial space will be occupied by the entire US&FCS operation (except one support staff person to remain at the embassy to coordinate meetings with the Ambassador and other embassy staff), the agriculture trade office, US-AEP, and the State of California. Display areas and the multi-purpose room will remain available for internal use and for rent.

To keep the one remaining office bay utilized, the post has solicited a tentative commitment from a local business, but this tenant's presence in the facility will not contribute to US&FCS's mission. Though it will provide some lease revenue, this rental further underscores how even after the latest reconfiguration of the facility, US&FCS may still be trying to provide leased space for which there is not adequate demand. Other Commerce efforts that provide support for organizations that promote U.S. exports may stimulate demand. For example, Commerce's Market Development Cooperator Program provides matching grants to develop markets for U.S. exports and gives priority to organizations proposing to collocate within commercial centers. Short of having an ideal client, subsidized or otherwise, to collocate in its vacant space, US&FCS's mission may be better served if the vacant space were used by current US&FCS staff or contractors rather than by a tenant whose activity is not germane to the US&FCS mission. Unfortunately, US&FCS does not have explicit criteria for determining the best use of its leased space.

In her response to our draft report, the Director General stated that "The CS did not reconfigure the Center to fit 'an ever-changing mission.' We reconfigured the Center to fit changing realities or a changing mix of 'partners.' Both reconfigurations were absolutely critical."

Our review of US&FCS documents indicates that at one point the commercial center in Jakarta was to rent both long- and short-term office space to U.S. businesses in addition to public and private multiplier organizations. Agency officials now state that space should only be rented to non-profit, multiplier organizations. This change in focus, which we consider a change in the center's mission, was instrumental in the agency's decision to reconfigure the commercial center in Jakarta.

B. Inadequate Planning and Confusion Over the Center's Goals Have Contributed to Staff Frustration and Unnecessary Reporting Requirements

As evidenced by the evolving mission of the Jakarta commercial center discussed above, there has been considerable confusion and uncertainty about how to implement the commercial center program in Jakarta. We were told initially by some senior US&FCS managers that the post's apparent confusion over the exact mission of the commercial center negatively affected the "performance of the commercial center and caused delays in the development of a suitable marketing plan." However, we later found that most headquarters staff, including senior managers, also are confused over the intended mission of this center. In addition, we found no difference between what US&FCS does at the center facility and what the post could be doing otherwise. Furthermore, headquarters' confusion and failure to recognize the fact that the post's activities cannot be separated from the commercial center program contributed to unnecessary reporting burdens on the post.

US&FCS did not adequately assess the need for a commercial center in Jakarta

We believe that the problems associated with an unclear commercial center mission can be attributed to the placement and build-out of a commercial center in Jakarta without first assessing, in concert with US&FCS staff in the field, the local and U.S. business needs for such a center. Without prior analysis of the specific needs for the additional resources given to the post, US&FCS headquarters later required the analysis and justification for those resources from the post. Washington invested political and financial capital in the promising idea of a commercial center in Jakarta, and the burden for rationalizing those investments fell largely to the post, after the fact, in the form of headquarters demands for commercial center facility marketing plans, performance indicators, and success measures. The need for such *ex post* rationale of the investments and continuing resource allocation led to much of the communication problems between headquarters and the post and resultant frustration concerning the appropriate uses for the commercial center.

US&FCS proceeded to build-out the commercial center facility without having previously tested the market or studying the feasibility of leasing space to U.S. businesses in Jakarta. After the facility was open, US&FCS headquarters required post staff to spend a great deal of time developing and revising marketing plans for the facility. At times, headquarters requests that appeared to make no sense increased tensions between the post and Washington headquarters. For example, headquarters required the post to advertise the commercial center three times a week during a facility renovation period when no new leases could be accommodated.

The agency's response states that "the former ambassador had his personal views on what a commercial center should be; Commerce had its view; and the post was caught in the middle of the dialogue between Commerce headquarters and the chief of mission." We found that Commerce headquarters also communicated multiple views to the post about what the commercial center was to accomplish. The agency's response states that

> "private sector companies are not our target long-term partners. Deciding to include them was a decision made by post, in an attempt to adapt the Commercial

> Center to local environment. CS senior management and other commercial center posts are clear that our target co-locators are nonprofit trade promotion organizations."

But, a headquarters document, entitled *U.S. Commercial Center Strategy and Procedures* and dated April 5, 1995, states "Commercial center marketing teams should meet with industry associations, chambers etc. to work out short- and long-term arrangements for renting office space to states, trade associations, **companies** and others." [emphasis added]

The Director General also stated in the agency's response to our draft report that "Commerce further winnowed down [potential sites] to the most promising markets where the centers could have the greatest impact for U.S. companies (e.g., Brazil, China, Indonesia)." We found nothing to confirm that the decision to locate a commercial center in Jakarta was based on any defensible resource allocation model or study.

Center activities not inherently distinct from those of the post

There is little real distinction between what US&FCS does at the center and what the post could be doing otherwise. Commercial centers, according to an ITA 1995 strategy paper, are generally supposed to (1) be located outside the embassy in the core commercial district; (2) collocate with other trade-related federal and private organizations; (3) for a fee, provide business services, such as computers, telephones, office space, and market and company information; (4) rent display space; (5) sponsor sectoral working groups and American Chamber of Commerce events; (6) provide enhanced US&FCS services; (7) promote seminars and luncheons; and (8) serve as the center of U.S. commercial activities in the host countries, including special training and technology programs.

None of the above services or programs are unique to Jakarta or other commercial centers. Other posts, such as Ottawa and Warsaw, are located outside the embassy, in commercial districts. Bangkok, also in a commercial district near the American Chamber of Commerce, is located in the same building as the foreign agricultural service. Bangkok has also rented space and support services to an American trade association in the past. Hanoi plans to provide its office space to U.S. businesses, while Bonn organizes (for a fee) space and secretarial services for U.S. business executives at German trade fairs. London and Mexico City have offered display areas for U.S. products and services. As for "enhanced US&FCS services," there was no indication that the gold key service, market research, or other services provided at the center are any different than any other post's programs. Indeed, we found little in the products and services offered under the auspices of the commercial center that would suggest any real difference between the services available from the commercial centers and those available from a US&FCS office. The only real difference appears to be the level of resources, with the commercial centers having more available to provide greater quantities of support.

In its response, the agency attempts to explain the difference between a commercial center and a commercial office. The response states that "Commercial Centers are designed to co-locate, outside chanceries, with state-local trade development agencies, industry associations, regional business councils, and other strategic, non-profit partners, beyond other federal agencies. Commercial offices lack this feature and also cannot offer the kinds of physical features—product display areas, offices and meeting rooms—afforded by a Commercial Center."

As we stated in our draft report, none of the above mentioned features are unique to Jakarta or commercial centers. During prior reviews, we found other US&FCS posts already offering one or more of these services or opportunities.

Headquarters has imposed unnecessary reporting requirements on the post

US&FCS posts overseas generally enjoy a great deal of independence from Washington in undertaking and prioritizing activities. But with that autonomy comes a significant reporting burden so that senior US&FCS managers can stay abreast of activities in the field. While many monthly reporting requirements have been replaced with quarterly requirements, standard post reporting covers expenses, staffing levels, receipt collections, event status, services provided, and more recently, performance measures and success stories. In Jakarta, the post was also under intense pressure to produce a commercial center marketing plan satisfactory to US&FCS managers in Washington. There was a high volume of communication traffic between the post and headquarters regarding the marketing plan and intended mission of the commercial center. Separate reporting requirements for the center's activities also became a source of contention. At one point, headquarters put in writing their concern that the post's unresponsiveness continued "to detract from the overall effectiveness of the center's program." However, demands from Washington that the post specially market and report on the center appear unnecessary, considering how the center is an integral and inseparable part of the post.

Headquarters has regularly asked the post to provide budget requests and justifications for a commercial center account separate from its ordinary US&FCS account. And with the requirements of the Government Performance and Results Act of 1993, the post has also been asked to develop performance measures for the commercial center, separate from the rest of the post. However, because US&FCS operates as one program in Indonesia, not two, the post has been unable to meet headquarters demands for commercial-center-specific performance measures and resource justifications. For example, at the time of our visit, the post was trying unnecessarily to allocate gold keys and other standard US&FCS services between the post's and the commercial center's activities. Also, though collocation with other business-oriented government agencies, like the agriculture trade office, may provide synergistic benefits to U.S. businesses, the impact of this type of benefit is not easy to measure, is difficult to assign between the post's and center's activities, and is not meaningful.

Funds used to improve the space and facilities leased to other agencies, multipliers, or U.S. businesses can be meaningfully accounted for in a separate facilities-type account, as necessary. And utilization of the facility's space can be monitored through measures like occupancy rates. But performance measures associated specifically with funds such as those used for build-out, as asked for by headquarters, are not meaningful to develop and track. Justifications for "center-specific" funds, such as build-out costs, should be developed when the funds are requested, not retroactively as they are spent. With the impending relocation of the US&FCS staff still in the embassy to the commercial center, any further requirements for separate reporting on commercial center budgets and performance will become even less necessary.

In her response to our draft report, the Director General stated that:

> "At this point, it is not clear that current performance measures used for overseas posts adequately capture the contributions of a Center. In November 1996, toward ensuring an effective discussion and also minimizing the possibility of imposing an additional reporting burden on posts, OIO prepared and sent to all three Commercial Center posts an options paper on performance measures, which included all current measures as well as possibilities for additional measures. All three Commercial Center posts agreed to these preliminary additional measures. We will revisit this paper with CS Jakarta to determine the appropriate course of action since there seems to be some confusion on this issue."

Regarding our recommendation that the agency "develop appropriate performance measures for all post activities, and cease attempts to develop performance measures specific to the commercial center," the agency responded that "if this recommendation is saying that current performance measures used for overseas posts adequately capture the contributions of a center, I am inclined to look at this issue further."

US&FCS emphasized the need for its performance measures to capture all the successes and contributions of a commercial center. "Performance measures," US&FCS noted, "are critical to the success of the Center because we have seen from experience that what gets measured is what usually gets done." It specifically noted that current US&FCS measures cannot capture the results of important "partnering" or joint efforts of the centers with their state, local and other private or federal partners co-located at the centers.

Our concern on this issue is that this is an illustration of how US&FCS attempts unnecessarily to separate and distinguish between the commercial center and commercial section, despite repeated US&FCS claims that no such distinction has been made. We did not recommend in our draft report that the agency use existing requirements and attempt to force-fit commercial center activities. However, we see no reason why US&FCS cannot "develop" post reporting requirements and measures to adequately capture the contributions of the entire post, including the commercial center.

In summary, it appears that the designation of the post in Jakarta as trustee of a "commercial center" has benefitted the post both by moving it out of the embassy and by significantly increasing its total budget allocation. Unfortunately, US&FCS has taken two "build-outs" (with total cost estimates over $700,000) to get its leased space in a configuration congruent with what the post in Jakarta believes is its appropriate mission. Yet, the current configuration may not be ideal. Confusion remains over the distinct mission, if any, of the commercial center separate from the post's other activities. US&FCS needs to learn from the experience of the difficult implementation of this commercial center to avoid unnecessary costs, frustration, and potentially lost trade opportunities with any future commercial centers. US&FCS needs to *actively involve experts on U.S. business needs within the context of local markets* before and in the early stages of implementing any future commercial centers or one-stop shops.

US&FCS's comments on our observations regarding the commercial center in Jakarta appear primarily to describe (1) procedures for establishing commercial centers and (2) how US&FCS has decided to structure commercial centers in general. We are pleased to see that the agency has developed procedures and structure for these and future commercial centers. Based on its experience in Jakarta and with its other two commercial centers and the office in Hanoi, US&FCS officials say that they have been reviewing the optimal space and layout for commercial center operations. US&FCS also maintains that it is making a concerted effort to "institutionalize our learning" and capture the varied lessons learned and share the best practices developed in setting up and operating its commercial centers.

III. NEED FOR U.S.-ASIA ENVIRONMENTAL PARTNERSHIP PROGRAM WITHIN US&FCS INDONESIA UNCERTAIN

The U.S.-Asia Environmental Partnership (US-AEP) is a cooperative effort, led by the U.S. Agency for International Development (USAID), to promote sustainable development while improving the environment in Asia. Twenty-five federal, state, and private sector programs contribute to the project in a variety of ways, including collecting and disseminating information on U.S. environmental companies or opportunities in Asia, providing grants to facilitate technology transfer, and sponsoring training opportunities for Asian private and public sector officials. US&FCS supports the environmental technology representatives located in nine Asian countries,[2] the Asian Development Bank, and the World Bank. These representatives function much like commercial specialists, but they also promote longer term environmental development,

[2]These countries include Hong Kong, India, Indonesia, Korea, Malaysia, the Phillippines, Singapore, Taiwan, and Thailand. There is also a US-AEP technology representative in Sri Lanka, who is supported only by USAID because US&FCS does not have operations in that country.

consistent with USAID's objectives, by sponsoring host country officials' visits and training in the United States and advocating for more effective environmental regulations throughout Asia.

US&FCS's support of the technology representatives is governed by an interagency agreement between USAID and the Department of Commerce. According to the agreement, the designated countries will have at least a technology representative, a deputy representative, and an administrative assistant. The two professionals should have technical and business competence in environmental technologies. All three positions report to the SCO, but are dedicated only to promoting U.S. environmental technology exports. Over the next two fiscal years, US&FCS will assume a greater portion of funding for the program. Of the total fiscal year 1997 budget for the technology representative program ($2,310,839), Indonesia's budget is $232,823. US&FCS will contribute $175,000 for the Indonesia operations.

In Indonesia, the US-AEP staff performs many of the standard US&FCS services, such as Gold Key services, industry subsector analyses, international market insights, and business counseling. The staff is located in the commercial center with most of the US&FCS staff, reports to the SCO through the commercial center director, and participates actively in the US&FCS program.

According to our interviews, the US-AEP technology representative program is a positive addition to US&FCS's efforts in Indonesia, but there is some question whether three full-time positions are justified. US&FCS officials have questioned whether the environmental industries in Indonesia are sufficiently developed to warrant the level of resources currently dedicated to environmental export promotion. An Indonesian government official responsible for implementing new environmental regulations stated that companies have been and will continue to be slow to comply. It could be that US-AEP's long-term development responsibilities should account for most of the technology representative's time. However, US&FCS has agreed to fund 75 percent of the program.

Opportunities for environmental technology exports to Indonesia certainly exist, as evidenced by the post's designation of pollution control equipment as a best prospect industry. In addition, environmental technologies affect almost every industry sector. However, these export opportunities depend, in large part, on the effectiveness of the host country's environmental regulatory program. Therefore, on a country-by-country basis, US&FCS should determine whether its program sufficiently benefits from 75 percent of funding for the US-AEP program. If the post is not using this resource effectively, US&FCS should consider proportionately reducing the US-AEP staff to better match the U.S. environmental export opportunities in each country.

In responding to our recommendations, US&FCS officials stated the importance of the environmental sector to the current administration and US&FCS's long-term goals. They believe that the administration's overall national goal of promoting technology transfer, including environmental technologies, will result in significant trade opportunities for U.S. companies. Rather than cutting resources to US-AEP, US&FCS said it proposed to expand the US-AEP staff's responsibilities to include delivery of the full range of US&FCS services in industrial sectors where clean technologies are a priority, such as paper and pulp.

We understand the importance of the environmental sector to our Nation, both economically and ecologically. We are not suggesting that U.S. public commitments to improving the global environment be decreased. We simply question whether US&FCS resources, as used to partially fund the US-AEP program, are being used most efficiently or congruently with the US&FCS's mission, especially considering other "best prospects" identified by the post in the country commercial guide. US&FCS should be funding programs that align themselves with the agency's strategic goals.

IV. EXPORT LICENSING CHECKS NOT CONDUCTED ACCORDING TO PRESCRIBED PROCEDURES

Contrary to guidance provided by Commerce's Bureau of Export Administration (BXA), US&FCS's foreign service nationals are conducting pre-license checks and post-shipment verifications (collectively known as "BXA checks") requested by BXA in support of its export licensing and control responsibilities. BXA requires that an American officer conduct the checks for these sensitive export licensing applications. BXA was unaware of the post's noncompliance because the post failed (1) to request or receive a waiver from BXA to use foreign service nationals for BXA checks and (2) to properly identify who conducted the checks in its response cables to BXA. To improve its BXA check process, the post must comply with BXA's policy on who may conduct BXA checks and more actively involve other sections or agencies in the process. Also, by working with other embassy officers, the post may increase its access to potentially important information about the local business or organization receiving the controlled items.

According to BXA's handbook, *How to Conduct Pre-License Checks and Post-Shipment Verifications* (March 1996), BXA checks are performed to verify the legitimacy of export transactions occurring under BXA's export licensing jurisdiction. BXA licensing officers and export enforcement special agents or analysts, as well as other federal agencies involved in the licensing process, can request that a post conduct a BXA check on a foreign company or organization. Pre-license checks determine if an overseas person or firm is a suitable party to a future transaction involving controlled U.S.-origin goods or technical data. Post-shipment verifications confirm whether goods exported from the United States were received and are being used in accordance with the provisions of the export license.

From October 1994 through August 1996, the post performed three pre-license checks (two resulting in an favorable response and one unfavorable). Two post-shipment verifications were canceled before action was required at post.

A foreign service national conducted all three BXA checks. The BXA handbook refers to a cable previously sent by BXA to all US&FCS posts, transmitting its policy on foreign service nationals conducting BXA checks. The cable clearly states that BXA checks should be conducted by U.S. citizens who are U.S. government employees.[3] Three disadvantages of foreign service nationals conducting the checks are listed: (1) the credibility of the check, (2) the possible reluctance to testify against a fellow citizen in a U.S. court, and (3) the lack of access to classified material. Only BXA has the authority to determine whether special circumstances outweigh these concerns. The post has neither requested nor received a waiver from BXA to allow its foreign service nationals to conduct the checks. If necessary, the post could seek such a waiver from BXA. However, at the time of this report, BXA has permitted only one post to use foreign service nationals and will not likely grant waivers freely. Without a waiver, American officers should perform all checks.

In addition, the post's response cables to BXA were not always complete or did not provide sufficient information for BXA's evaluation. For example, one response did not state whether an on-site visit was conducted. Also, none of the three responses submitted clearly stated who conducted the check. The BXA handbook states that BXA will not normally consider checks conducted solely by foreign service nationals to be complete. However, BXA cannot properly make this determination without a clear statement in the response cable indicating who conducted the check. Therefore, the post should specifically state in the body of the response cable (1) whether an on-site visit was conducted and (2) the name, title, and employment status (either American officer or foreign service national) of the official who conducted the check, as shown in the sample response cable in the BXA guidance.

Despite the post's noncompliance with BXA guidance, our review of the post's files discovered an adequate amount of information-gathering (such as correspondence with the subject company or organization and copies of documentation of the transaction at issue). In all cases reviewed, the foreign service national performed an on-site visit with the subject organization as suggested by BXA. In addition, other sections of the embassy, such as the office of the military attaché for defense programs, were consulted on certain checks, clarifying how certain items could be inappropriately used or diverted. However, the post should also consult the embassy's blue lantern implementation plan, which defines how checks of Department of State controlled items are conducted and which sections of the embassy participate. The blue lantern plan may provide additional sources of information for the post to access during BXA checks. Because the post conducts only about three checks per fiscal year, the greater access to information could improve the depth of analysis for these checks, but would not likely overburden the post or the other sections.

[3]According to BXA officials, personal service contractors, regardless of their citizenship or security clearance, should not perform BXA checks.

In their response to our draft report, US&FCS officials stated that the post is immediately implementing our recommendations to have American officers conduct BXA checks, clearly document BXA cable responses, and consult the embassy's blue lantern procedures.

V. IMPROPER PROCUREMENT PRACTICES PERSIST, AS TRAINING NEEDS GO LARGELY UNMET

During our inspection, the Department of State's administrative section at the embassy informed us of several problems with US&FCS's procurement practices. The post does not always engage in sufficient procurement planning and has not involved the embassy's procurement office early enough in the process to prevent unauthorized commitments. Many of the American officers admitted and expressed concern about their limited knowledge of administrative and financial management matters. The SCO and the embassy's administrative officer expressed a need for the officers to receive training from US&FCS headquarters, but as of the date of this report, formal training has not been provided and the SCO has been slow to see that the deficiencies are corrected. Although headquarters has been remiss in scheduling these officers for training, the post could have sought guidance and/or informal training from the embassy's administrative office.

A. Post Has Inappropriately Committed the Government to Unauthorized Procurements

For at least 5 out of 186 procurements in fiscal year 1996, the post failed to follow established procedures. In all of these cases, the post acquired services before an authorized procurement official approved purchase orders. Because none of the US&FCS officers at post are authorized procurement officials, their actions placed the government at risk of paying for goods or services that were not compliant with regulations and placed each of the officers at risk of being personally liable for the procurements.

In one case, US&FCS staff reserved hotel rooms and planned a banquet for the Secretary of Commerce's visit to Jakarta in June 1996. Because of last minute changes to the itinerary, the banquet was added to the schedule, increasing the cost significantly. Instead of informing the embassy's procurement official of the change, the post waited until the delegation arrived to request a purchase order. According to procurement regulations, only authorized contracting officials can engage a vendor for services, and their authorization is required before goods or services are delivered. Therefore, this procurement resulted in an unauthorized commitment of $5,729, requiring ratification and approval by ITA headquarters before the vendor may be paid.

In another case, the post organized a two-day off-site planning meeting, in Bandung, Indonesia. Despite the meeting's apparent success (see page 5), the post failed to timely inform the procurement office of the need for a meeting room and an event moderator. The procurement office received a request for a purchase order four working days before the event and another request one day before the event. The procurement office was able to avoid additional unauthorized commitments by paying for one contract with petty cash and the other with a bank card. However, there was no reason why the post could not have submitted these procurement actions earlier.

The other two procurements (worth approximately $3,440 total) involved logistical arrangements for two U.S. business delegations. One group of food processing and packaging business representatives visited Jakarta in September 1996, and a second group from the telecommunications industry arrived in October 1996. The post did not request purchase orders for room rental, hospitality, and other items until after the second delegation left in October. Although these procurements will be paid for by user fees and not appropriated funds, the post should have followed standard procurement procedures to acquire these services and products. While the federal acquisition regulations apply only to procurements funded by appropriated funds, the Department requires that all other procurements also follow these standards. At the time of this report, the procurement actions had not been resolved by the embassy's procurement office.

According to headquarters procurement officials, there is virtually no situation that cannot be appropriately handled by the embassy procurement office. Procurement procedures allow for even last minute changes, such as the Secretary's visit, but communication with the procurement office is critical. Regardless of the circumstances, the post should request a purchase order from the embassy's procurement office *before* any services or products are provided, with sufficient advance notice for the office to process the request. This is especially true for events that can be anticipated months in advance.

The post should have been aware of its improper procurement practices. In August 1995 and August 1996, a US&FCS internal review team reported similar procurement irregularities, including two unauthorized commitments from 1995. The report recommended that the post follow established procurement regulations, including submitting requests for purchase orders in advance of contract performance. In addition, the report recommended procurement training for the American officers, who were unable to attend administrative and financial management training in June 1996.

In response to our recommendations on this issue, the Director General stated in her response that the "Commercial Service's Office of Planning will provide CS Jakarta Department guidance and policies on procurement and other administrative matters that differ from or augment those of the State Department." The Director General also stated that she has "asked post to work more closely with the embassy procurement office" and US&FCS headquarters also plans to schedule additional administrative and financial management training for all EAP posts as soon as possible.

Furthermore, the response stated that the post in Jakarta will ask the Embassy procurement officer to provide all staff with a briefing on procurement regulations.

In the response, agency officials clarified the number of unauthorized commitments. The response stated that the report counted as eight procurements the logistical arrangements for two trade missions. The response stated that "CS Jakarta found them to consist of several catering requests and meeting room rentals from a single hotel for each mission. These would have been handled as a single procurement order for each mission." Consequently, we have adjusted our final report.

The post also disagreed with the description of events that led to an unauthorized commitment for Secretary Kantor's mission. The Director General attributed the unauthorized commitment to "staff inexperience and the inability of the hotel to generate a timely and correct pro forma invoice, NOT a failure to communicate with the procurement office." As we state above, our review found that the procurement official was not properly informed of the changes that necessitated the purchase order that resulted in an unauthorized commitment.

B. American Officers Require Administrative and Financial Training

In response to a series of US&FCS management performance reviews, which identified weaknesses in administrative practices at US&FCS posts worldwide, US&FCS's Office of Planning scheduled administrative and financial management training in Jakarta for June 1996. The training was designed to help US&FCS staff in the region manage the post's resources more effectively by familiarizing them with internal controls and safeguard structures as they apply to: (1) fungibility of accounts, (2) procurements and methods of payments, (3) collections, (4) financial tracking and reporting, (5) personnel, and (6) asset accountability. The Office of Planning intends to train every American officer on these administrative issues.

Unfortunately, the Jakarta training was scheduled at the same time as the ASEAN Ambassadors' tour of the United States and the concurrent visit of the Secretary of Commerce to Indonesia. No American officers from the post were able to attend the training. Staff at post stated that they requested to have the training rescheduled, but US&FCS headquarters refused to change the date, explaining that it would be more beneficial to train others in the region scheduled for that time than to cancel training for everyone.

Upon the SCO's request, Office of Planning staff gave four of the American officers, including the SCO, a one-day administrative and financial management briefing during the week of the scheduled training. Topics covered in the week-long session were briefly reviewed, and copies of the training manual were provided. In addition, six Indonesian foreign service nationals attended the week-long training. However, the SCO has requested that the officers in Indonesia receive the formal training at the next available date.

We understand that the Office of Planning intends to provide additional training sessions throughout 1997. Considering the post's consistently weak procurement practices, the American officers in Indonesia should be scheduled for administrative training as soon as possible. Until then, the post should seek guidance from the embassy's administrative office, which has offered to review the procurement regulations with US&FCS. The post should also be reminded to regularly communicate with the procurement office when requirements are known, so that unauthorized or otherwise inappropriate commitments can be avoided in the future.

In response to our recommendation that the agency schedule administrative and financial management training for appropriate staff in Indonesia as soon as possible, the Director General stated that "this is a top priority for OIO, and we will schedule administrative and financial management training for EAP personnel as soon as its [sic] feasible."

C. Further Administrative Guidance May Be Required

American officers in Jakarta and other offices we visited stated that written administrative guidance provided by US&FCS headquarters is difficult to use and generally not helpful. The posts receive a copy of the *US&FCS Operations Manual*, updates to the *ITA Manual of Administrative Instructions*, and various cables or other communications describing administrative procedures. However, the Jakarta commercial center only has a copy of the Operations Manual for reference. The Operations Manual is not a complete source on administrative matters, and other instructions are reportedly too technical for the officers to understand exactly what is required of them.

The Office of Planning's administrative and financial management training is designed to give officers practical instruction on key administrative practices. But there will always be officers who have not attended training, either due to scheduling conflicts or staff turnover. The training materials distributed at the training sessions are also not a comprehensive reference source. In order to ensure that officers and other staff are aware of administrative requirements and processes, US&FCS headquarters should consider developing more user-friendly administrative guidance.

ITA has already prepared handbooks for headquarters and domestic offices that explain ordinary administrative tasks step-by-step. Admittedly, an overseas handbook is complicated by the fact that the Department of State processes most of the overseas posts' administrative requirements—processes that may vary from embassy to embassy. Therefore, ITA and US&FCS headquarters should consider whether there are some basic administrative functions that are suitable for a generic handbook. The combination of the Office of Planning's administrative training and an easy-to-use handbook should make officers more accountable for their actions because they would then have no excuse for improper administrative practices.

The embassy's general services officer in Indonesia admitted that he had a vague understanding of many Commerce-specific policies and regulations that differ from those of the State Department. US&FCS should consider providing the aforementioned updated guidance to State Department personnel responsible for processing procurement and other administrative requests.

The Director General agreed to instruct US&FCS's Office of Planning, in conjunction with OIO, to update the *US&FCS Operations Manual* to include a new section on the functions of the regional directors.

RECOMMENDATIONS

We recommend that the Assistant Secretary and Director General of the U.S. and Foreign Commercial Service direct appropriate officials to:

1. Explore additional ways that the post can provide useful services to U.S. businesses, including:
   — expanding the post's contacts database system to include the tracking of US&FCS products and services,
   — automating client follow-up and other routine office work and products like the agent/distributor service,
   — working with the embassy's economic section and the SCOs in other ASEAN countries to prepare a handbook or other written material introducing U.S. businesses to the potential for arbitrage opportunities presented by the new ASEAN free trade area, and
   — encouraging large U.S. firms already present in Indonesia to provide trade leads and create opportunities for smaller U.S. firms as suppliers and subcontractors on major projects and contracts.

2. Develop and prioritize the criteria for effective use of space within the commercial center in Jakarta, and use that criteria to target recruitment of other users of the space, assess whether current users should be there, and determine the optimal amount of space that US&FCS should be using.

3. Draw on the experiences of officers and staff in the field and at headquarters to document lessons learned and best practices from implementation of the commercial center concept thus far. Use that information in planning and establishing new center facilities. For example, design infrastructure build-outs in future commercial centers to provide adequate flexibility to respond to changing client base and individual client needs.

4. When designing and implementing future Washington-generated program initiatives that will have a profound effect on the post(s), such as the commercial center concept, actively involve business experts, including but not limited to commercial officers, who are familiar with the local markets.

5. Issue new reporting requirements to US&FCS Indonesia that call for consolidated reporting of the activities of the commercial center and those of the US&FCS post.

6. Maintain only one general budget for the post in Indonesia, removing the artificial distinctions between the post and the commercial center budgets.

7. Develop appropriate performance measures for all post activities, and cease attempts to develop performance measures specific to the commercial center.

8. Determine, on a post-by-post basis if necessary, whether US&FCS resources are better spent on a partially USAID-funded US-AEP staff, which is constrained to work solely on environmental technologies; a fully US&FCS-funded staff able to cover multiple business sectors as warranted; or some combination of the two. Based on this determination, consider proportionately reducing either the US&FCS share of funding or the size of the US-AEP staff to better to match the U.S. environmental export opportunities.

9. Immediately have American officers conduct all pending and future pre-license checks and post-shipment verifications unless a waiver is received from BXA.

10. Clearly state in all response cables to BXA (1) the name, title, and employment status (either American officer or foreign service national) of the official who conducted any pre-license checks or post-shipment verifications and (2) whether an on-site visit was conducted.

11. Consult the embassy's blue lantern implementation plan to expand the scope of information-gathering within the embassy for completing any pre-license checks or post-shipment verifications.

12. Provide to both the post's staff and the embassy's general services officer guidance on Commerce policies and procedures on procurement and other administrative matters.

13. Ensure that the post procurement actions are handled according to all federal and departmental guidelines. Immediately seek guidance on proper procurement practices from the embassy's procurement officer, particularly when to request purchase orders for future procurements.

14. Schedule administrative and financial management training for appropriate staff in Indonesia as soon as possible.

15. Update all appropriate sections of the *US&FCS Operations Manual*.

APPENDIX I

LIST OF ACRONYMS

ASEAN	Association of South East Asian Nations
BEM	Big Emerging Market
BXA	Bureau of Export Administration
CS	Commercial Service
ITA	International Trade Administration
OIG	Office of Inspector General
SCO	Senior Commercial Officer
US-AEP	United States-Asia Environmental Partnership
USAID	United States Agency for International Development
US&FCS	United States and Foreign Commercial Service
USIS	United States Information Service

APPENDIX II

LIST OF US&FCS SERVICES

Industry Sector Analysis (ISA)—market research reports produced on location in leading overseas markets. Reports cover market size and outlook, characteristics, and competitive and end-user analysis for a selected industry sector in a particular country. ISAs are available on Commerce's National Trade Data Bank and Economic Bulletin Board.

International Market Insights (IMI)—short profiles of specific foreign market conditions or opportunities prepared in overseas markets and at multilateral development banks. These non-formatted reports include information on dynamic sectors of a particular country. IMIs are available on the National Trade Data Bank and the Economic Bulletin Board.

Customized Market Analysis (CMA)—market research made to order. A CMA report assesses the market for a specific product or service in a foreign market. The research provides information on sales potential, competitors, distribution channels, pricing of comparable products, potential buyers, marketing venues, quotas, duties and regulations, and licensing or joint venture interest.

Trade Opportunity Program (TOP)—sales leads from international firms seeking to buy or represent U.S. products or services. TOP leads are printed daily in leading commercial newspapers and distributed electronically via the Economic Bulletin Board.

Agent/Distributor Service (ADS)—customized overseas search for qualified agents, distributors, and representatives for U.S. firms. Commercial officers abroad identify up to six foreign prospects that have examined the U.S. firms' product literature and expressed interest in representing the U.S. firm's products.

Gold Key Service—custom-tailored service that combines orientation briefings, market research, appointments with potential partners, interpreter service for meetings, and assistance in developing follow-up strategies. Gold Key Service is offered by US&FCS in export markets around the world.

Matchmaker Trade Delegations—"match" U.S. firms with prospective agents, distributors, and joint venture or licensing partners abroad. The US&FCS staff evaluates U.S. firms' products and services for marketing potential, finds and screens contacts, and handles all event logistics. U.S. firms visit the designated countries with the delegation and, in each country, receive a schedule of business meetings and in-depth market and finance briefings.

International Buyer Program (IBP)—supports selected leading U.S. trade shows in industries with high export potential. Department of Commerce offices abroad recruit foreign buyers and distributors to attend the U.S. shows while program staff helps exhibiting firms make contact with international visitors at the show. The IBP achieves direct export sales and international representation for interested U.S. exhibitors.

UNITED STATES DEPARTMENT OF COMMERCE
International Trade Administration
Washington, D.C. 20230
DIRECTOR GENERAL OF THE U.S. AND FOREIGN COMMERCIAL SERVICE

APR 14 1997

MEMORANDUM FOR Frank DeGeorge
Inspector General

FROM: Lauri Fitz-Pegado
Assistant Secretary and Director General
The Commercial Service

SUBJECT: CS Response to Draft Inspection Report on Indonesia (IPE-9285)

Thank you for sharing with me the draft report on the Commercial Center in Jakarta. The CS is always looking for ways to improve its operations. We carefully reviewed the report and each recommendation, most of which are very much in line with actions already underway, if not completed. OIO staff with the lead for Jakarta recently met with the IG Review Team to amplify issues and recommendations raised in the report. We would like to thank you for this opportunity to respond.

I want to take this opportunity to commend to you the thorough efforts of the review team. The members did an extraordinary job of piecing together a very insightful picture from many sources. We are pleased that this report closely reflects the views of post. Before the review team finalizes this report, I would like to make sure that they have the benefit of information they may not have had in the drafting stage, a time of transition for the CS. People closest to bringing up the Jakarta Center, including members of my senior management team, had moved on, and staff who have since inherited the Commercial Center portfolio, were not in place prior to the review.

Since mid-September, the CS has moved quickly to integrate the three Commercial Centers into the OIO management structure and country commercial strategies by devolving responsibility for their development to the appropriate OIO region. I chaired a cross-organizational meeting on Centers and related overseas programs. As a result, OIO staff who have the lead for the Centers not only talk with posts but with each other and with the teams that run the American Business Centers in Russia and the Newly Independent States and the nascent Technical Assistance Center in South Africa.

At this point, allow me to begin our response by outlining the genesis of this Center. In 1994, Commerce began implementing the Jobs Through Exports Act, the legislation which authorized the Department to establish Commercial Centers in Africa, Asia and Latin America. To maximize their ability to assist U.S. exporters, Commerce has strategically placed Commercial Centers in Big Emerging Markets. Commerce further winnowed down this group to the most promising markets where the Centers could have the greatest impact for U.S. companies (e.g., Brazil, China, Indonesia).

Long before Commerce had thought to place a Commercial Center in Indonesia, Ambassador Barry and SCO Ted Villinski had been working to move the Commercial Section from the chancery and into the Wisma Building with USIS and FAS. Commerce agreed to move the Commercial Section into the USIS space so long as the opportunity could be used to establish a Commercial Center. Ambassador Barry had his personal views on what a Commercial Center should be. Commerce had its views. Post was caught in the middle of the dialogue between Commerce headquarters and the Chief of Mission. In the end, the Ambassador's view prevailed and also served to intensify tension between USIS and FCS. Lingering tensions, in addition to a USIS budget reduction, were both factors in the USIS decision to withdraw from the Center last year.

Lacks Field Participation
In this sense, the field was involved in the early stages of establishing the Center. As SCO Hand succeeded SCO Villinski, Headquarters tried to engage the field in the planning and implementation but met with resistance from the current SCO -- so much resistance, in fact, that HQ came close to writing a letter of reprimand. Since then, we believe, post has been a much more active player in the process.

Reasons for Selecting Indonesia
Selecting Jakarta as the site for the second U.S. Commercial Center was a policy call and reflected a series of program decisions. The Commercial Center concept fit into many of the priorities of Commerce and the Administration. Indonesia was among the most promising Big Emerging Markets, with more advocacy requests than any other BEM, and placing a Commercial Center was a strategic and tangible way to focus attention on the vast market opportunities in this relatively untapped, overlooked market. We had highlighted Brazil with the Commercial Center in Sao Paulo and more recently China with the Commercial Center in Shanghai.

In addition, one of the TPCC goals of the Clinton Administration and several recommendations of Congress were to leverage resources with state-local, public-private partners so as not to duplicate efforts in places like Indonesia, where the U.S. Government has scarce resources. The list of co-locators that this Commercial Center has housed, at one point in time, is essentially on target: AEP, AID, FAS, USIS and the State of California.

Selecting Jakarta was also a program call, for it allows our post to better assist small and medium size companies to export to a promising, but very challenging market. Having the Center -- and by extension its facilities -- provides the CS with a regional base to launch the Alliance for Mutual Growth, an Administration initiative designed to strengthen commercial relationship with the members of ASEAN. It also served as a mechanism to strengthen the teams and integration initiatives by providing domestic field CS team members to do TDYs to do follow-up work in-country on behalf of small and medium size companies.

Difference between a Commercial Center and a Commercial Office
Commercial Centers are designed to co-locate, outside chanceries, with state-local trade development agencies, industry associations, regional business councils, and other strategic, nonprofit partners, beyond other federal agencies. Commercial offices lack this feature and also cannot offer the kinds of physical features -- product display areas, offices and meeting rooms -- afforded by a Commercial Center.

FCS Jakarta is a Single Operation
SCO Mike Hand made a strong case to keep his office in the Chancery -- though most operations have been moved to space adjacent to Commercial Center facilities. In approving his request, the intent was to support a close working relationship with the Ambassador and members of the country team. The intent was not to create two operations or draw an artificial distinction between the FCS Section in the Embassy and the Commercial Center. Far from it, the goal was to ensure that FCS Jakarta, regardless of whether the staff are based in the Chancery or the Center, could provide clients with seamless delivery of service.

This observation is also related to the accounting system which has a budget for the Center and a budget for CS Jakarta. This is done -- not because we consider them two operations -- but to better help Headquarters track costs of the Centers initiative (especially start up costs). In the past, we have often been asked to provide similar information to the Hill and the Department for use in the budget formulation process.

Mission of the Commercial Center Remains Consistent
CS senior management understands the mission of a commercial center. All of our programs -- whether a domestic field Export Assistance Center, traditional CS office overseas, an ABC, a Commercial Center -- exist to promote U.S. exports. The CS did not reconfigure the Center to fit " an ever-changing mission." We reconfigured the Center to fit changing realities or a changing mix of "partners." Both reconfigurations were absolutely critical. Before the Commercial Section moved into USIS space, we made minor renovations to transform what was essentially a large library into a layout that made more efficient use of space and came closer to offering commercial center features: offices for partners, in-house meeting rooms and areas for product displays and other business functions. In the end, the renovation did not go far enough. FCS basically acquiesced and fit the Commercial Section into a library layout drawn by post and the Ambassador.

When USIS moved out in early 1996, FCS took the opportunity to reconfigure a second time to adjust to space to meet the needs of the next round of partners, including FAS, which has very specific layout requirements for its Agricultural Trade Office, and clients. To meet changing client needs, the CS is always prepared to consider ways to reconfigure space to enhance our shared trade promotion goals.

Performance Measures
The mission of the Center is tied to the ongoing discussion on performance measures. At this point, it is not clear that current performance measures used for overseas posts adequately capture the contributions of a Center. In November 1996, toward ensuring an effective discussion and also minimizing the possibility of imposing an additional reporting burden on posts, OIO prepared and sent to all three Commercial Center posts an options paper on performance measures, which included all current measures as well as possibilities for additional measures. All three Commercial Center posts agreed to these preliminary additional measures. We will revisit this paper with CS Jakarta to determine the appropriate course of action since there seems to be some confusion on this issue.

To summarize our thinking on performance measures, I believe we need to move toward capturing all the successes and contributions of a Commercial Center, whether facilitated by post or by a co-located partner. First, HQ has extensive reporting responsibilities to other agencies and we need to be able to respond to questions on this issue often posed by the Department, OMB and the Hill. Second, the CS and our trade promotion partners serve what amounts to the same client base. There is a real danger that some of the most important measures -- number of counseling sessions and success stories -- for Commercial Center posts may decrease as CS staff spend time supporting and facilitating the activities and contributions of our resident partners. By way of example, CS Shanghai spends considerable time working with the State of Maryland, which is co-located with us in the Commercial Center, to stage trade events in-country. As a result of joint trade promotion efforts, these events have produced a number of success stories for our partner, Maryland. Our point here is that the CS also needs to claim credit for these kinds of success and have in place a mechanism for readily and easily collecting this kind of information. Current CS measures cannot capture the results of these kinds of "partnering" efforts at Centers.

In keeping with the Administration and Department's goal to quantify performance measures as specifically as possible, all CS operations, stateside, overseas and at HQ, are asked to report on measures that capture our contributions to U.S. exports. We are absolutely committed to getting this right. Performance measures are critical to the success of the Center because we have seen from experience that what gets measured is what usually gets done.

Commercial Centers are Different from Commercial Offices
As we noted earlier in this memo, Commercial Centers are enhanced export promotion facilities that are designed to do two things. First, to cater to small and medium enterprises. Indonesia specifically, and ASEAN, as a whole, were named as one of the Clinton Administration's ten Big Emerging Markets, and the Administration had decided to focus resources both for larger companies with our advocacy efforts and for smaller companies with the Commercial Center. Second, to follow Congress and TPCC recommendations to co-locate with partners, the same ones we work with on a worldwide basis.

In the most obvious sense, a Commercial Center is a Commercial Office overseas with some enhancements: prime location in the heart of the business district, multi-purpose space to use creatively to support our core programs, like Gold Keys or Single Company Promotions, and to co-locate with trade promotion partners (other TPCC agencies, state-local export development offices, nonprofit industry associations, and other nonprofit trade promotion organizations). A Commercial Center gives post added resources to do what they do best and allows the CS to reduce duplication of trade promotion efforts in-country and share some costs. It is the enhanced space and ability to co-locate and work with trade promotion entities, beyond TPCC agencies, that makes a Commercial Center different from a "traditional" Commercial Office.

Having said this, a Commercial Center in Jakarta will look different from the Center in Shanghai or Sao Paulo. HQ's ability to impose a cookie cutter approach to establishing Commercial Centers is rather limited. Each Center is modeled according to the uniqueness of the market. In Sao Paulo, they have a huge influx of trade events. In China, we are the only vehicle for states to open representative offices. In Jakarta, this is a model for federal agencies and others ahead of the curve in this emerging but very promising market. Posts not only have had the latitude but the responsibility to adapt the Commercial Center operations to local conditions and opportunities. We rely on those at the frontlines to tell us how we can realize the Commercial Center concept and provide clients with a consistent level of service.

Criteria for Identifying Partners

The CS targets U.S. companies and trade promotion organizations who have the best chances for succeeding and, ideally, those for whom an overseas presence would otherwise not be an option -- to have an affordable base in a priority market for one day to as long as a year. Overseas, only Commercial Centers are designed physically and legally to co-locate with partners, beyond federal agencies. The long-term presence of partners gives us an opportunity to share some costs, expand the resources available to clients at one site, and multiply the number of clients served. From an organizational perspective, partnering is exactly what we should be doing more of overseas, though we may not call every operation a Commercial Center. This is efficiency in government at work.

Private sector companies are not our target long-term partners. Deciding to include them was a decision made by post, in an attempt to adapt the Commercial Center to local environment. CS senior management and other commercial center posts are clear that our target co-locators are nonprofit trade promotion organizations.

Marketing the Commercial Center

I am very pleased that post is becoming more engaged in this important, on-going process. In the end, the success of any operation rests with the people closest to the program. From the beginning, posts were offered considerable resources to develop a post-driven marketing strategy for drawing clients into Indonesia. We sent at least four TDYs to support post on just the marketing front.

More important, we provided post with a link to the rest of the world and a start in integrating into EPS programs and CS team activities. We realized that marketing the Center and a market where we are ahead of the curve requires the resources of the entire organization. Sustained efforts at HQ were made to link the Centers with the domestic field, where the client base is predominantly small companies, with the state export development agencies, trade associations, regional business councils, event organizers and other multipliers. My senior management team mobilized the ITA offices, set up to maintain working relationships with these partners, to develop promotional literature and spread the word on these opportunities. The Commercial Centers were funneled into the CS Teams marketing strategies and EPS events planning process. The point of this large scale exercise was not to dictate to post a marketing strategy but to provide support. Post must take the lead to market the Centers and to utilize the enhanced resources to improve and expand client service.

Review Team Recommendations
Having addressed the issues that underlie the conceptual framework for commercial centers, I would like to turn to the program-enhancing recommendations made in the report.

1. Explore additional ways that the post can provide useful services to U.S. businesses, including:

- **expanding the post's contacts database system to include the tracking of US&FCS products and services,**

- **automating client follow-up and other routine office work and products like the agent/distributor service,**

- **working with the embassy's economic section and the SCOs in other ASEAN countries to prepare a handbook or other written material introducing U.S. ASEAN businesses to the potential for arbitrage opportunities presented by the new ASEAN Free Trade Area, and**

- **encouraging large U.S. firms already present in Indonesia to provide trade leads and create opportunities for smaller U.S. firms as suppliers and subcontractors on major projects and contracts.**

<u>CS Response</u>
These are excellent suggestions and are the very kinds of things we encourage all of our posts to do. I am pleased to report progress on all fronts. CS/Jakarta is already expanding and ever greening its trade contacts database and developing a client management system. With the renovation largely underway, post has begun its extensive outreach to the sources of target clients, small and medium enterprises, including domestic field offices, the CS Asia-Pacific Team, EPS trade events and information programs, and selected TD offices. Post is supplying promotional literature, including a "WHY

INDONESIA" kit to these channels.

2. Develop and prioritize the criteria for effective use of space within the commercial center in Jakarta, and use that criteria to target recruitment of other users of the space, assess whether current users should be there, and determine the optimal amount of space that US&FCS should be using.

CS Response
Based on guidance from OGC, we have a clear sense of our target "co-locators." The CS targets trade promotion organizations who have the best chances for succeeding and, ideally, those for whom an overseas presence would otherwise not be an option. Target trade promotion partners include other TPCC agencies, state-local development agencies, and nonprofit trade promotion organizations. For the most part the Commercial Center in Jakarta has housed partners that fit the target mix: AID, AEP, FAS, USIS, and the State of California.

Drawing on the experiences of all three Centers and the office in Hanoi, the CS has been reviewing the optimal space and layout for all of our operations that are outside a Chancery or Consulate.

3. Draw on experiences of both field and headquarters staff to develop best practices on implementing future commercial centers.

CS Response
This is another excellent suggestion. Toward capturing lessons learned and sharing best practices, we started a blue print and time line for bringing up a Center, immediately after the Jakarta project. These planning instruments, evolving works-in-progress, successfully guided us through the establishment of the Shanghai Commercial Center and Hanoi Commercial Office. Everyone who played a major role in Commercial Centers, Trade Centers, ABCs at post and HQ were brought in to the process.

Based on our experience with Jakarta and Sao Paulo operations, the CS refined its timelines and developed a narrative to capture lessons learned and share best practices developed. Both planning instruments are evolving works-in-progress in nature since each new operation coming on line provides unique learning opportunities and each site requires adjustments for local environment. Another way we try to institutionalize our learning is to have an on-going dialogue with Commercial Center posts. For example, HQ engaged all three Commercial Center posts in discussions on performance measures and marketing plans; the current Jakarta Commercial Center Director had previously served in the Sao Paulo Commercial Center; and the current PCO that oversees the Shanghai Commercial Center had been deeply involved in bringing up Jakarta.

4. When designing and implementing future Washington-generated program

initiatives involve commercial officers, business experts and others who are familiar with the local markets.

CS Response
CS standard practice in establishing a new office, whether stateside or overseas, is to lay the groundwork with local and U.S. business communities in planning a Center. When it comes to evaluating client needs in country and best ways of meeting those needs, we look to our field units.

We have engaged post and local business experts. SCO Villinski, SCO Hand's predecessor, and Ambassador Robert Barry, Ambassador Stapleton Roy's predecessor, had pushed hard to move the Commercial Section from the Chancery and into the Wisma Building, and were supportive of the Commercial Center concept. Both the former SCO and Ambassador had worked with the local business community in developing the Center.

5. Issue new reporting requirements to US&FCS Indonesia that call for consolidated reporting of activities of the commercial center and those of US&FCS post.

CS Response
We would appreciate the team's providing additional clarification here. Other than the quarterly reports and success stories, which is the standard reporting required of all posts, we are not clear what reporting activities we are being asked to consolidate. Wherever possible, the CS is always looking at ways to streamline paperwork and reduce the reporting burden on any unit.

6. Maintain one budget for the post in Indonesia.

CS Response
We ask Jakarta to maintain separate O&A budgets for the Center and CS Jakarta simply to track costs of the Centers initiative, information that the Hill and Department often ask for with very short turnaround times. Rather than duplicating effort to split out costs at HQ, we ask post, at point of entry, to do this.

7. Develop appropriate performance measures for all post activities, and cease attempts to develop performance measures specific to commercial centers.

CS Response
If this recommendation is saying that current performance measures used for overseas posts adequately capture the contributions of a Center, I am inclined to look at this issue further. I think we need to consider whether our measures

effectively capture the contributions and synergies associated with housing trade promotion partners. This is a big question and one we have posed to all three Commercial Center posts at many points in time. We asked all three posts for their views and offered them the lead to coordinate a "field" perspective on this important issue. All three asked HQ to take the lead in drafting discussion piece, which we did and vetted throughout OIO, EPS, ODO, careful to give posts and opportunity to participate at every stage of the discussion. As a result of these discussions, we came up with preliminary measures for the Centers.

8. Review resources and staffing of AEP program.

CS Response
The Commercial Service believes that the three-person US-AEP office working under post management represents a significant resource commitment to the environmental sector. This commitment is reflective of the Administration's priorities for fostering long-term sustainable development and for promoting technology transfer. These goals have been repeated by the President, the Vice-President and the Secretary and will result in significant commercial opportunities for US companies. In FY'95, Congress appropriated approximately $1.3 million to OIO for environmental programs. Indeed, ITA established a separate office in Trade Development just to promote environmental technologies. As a longer term goal, we are very supportive of encapsulating a strong environmental thrust in our program. For this reason, rather than cutting resources to AEP, we propose expanding the responsibilities of AEP personnel to include delivery of the full range of Commercial Service programs in industrial sectors where clean technologies are a priority, such as pulp and paper.

9, 10, 11. Immediately have American officers conduct B.A. checks, clearly document B.A. cable responses, and consult embassy's blue lantern procedures.

CS Response
CS is implementing above recommendations.

12. Provide to post staff and embassy's general services officer guidance on Commerce policies and procedures on procurement and other administrative matters.

CS Response
The Commercial Service's Office of Planning will provide CS Jakarta Department guidance and policies on procurement and other administrative matters that differ from or augment those of the State Department.

13. Ensure that post procurement actions are handled according to all federal and departmental guidelines. Immediately seek guidance on proper procurement procedures from embassy's procurement office.

CS Response
We have asked post to work more closely with the embassy procurement office, and CS Jakarta will ask the procurement officer to provide all staff with a briefing on procurement regulations within the next 15 days. We also plan to schedule additional administrative and financial management training for all EAP posts as soon as possible (see #14). However, we offer a few comments on some points made in the Report on post procurement actions.

Page 17, paragraph 5(a) -- The number of "unauthorized commitments" according to CS Jakarta records is 5 out of 186, not 11. It appears from remarks at the top of page 18 that the IG counted as 8 procurements the logistical arrangements for two trade missions. In reviewing these, CS Jakarta found them to consist of several catering requests and meeting room rentals from a single hotel for each mission. These would have been handled as a single procurement order for each mission. Nevertheless, CS understands there is a "zero tolerance" policy with respect to unauthorized commitments.

Page 17, paragraph 5(a) -- The description of events that led to an unauthorized commitment for Secretary Kantor's mission is inaccurate. CS Jakarta kept Embassy's procurement office promptly informed of all changes, and CS Jakarta followed their instructions. Due to the annual leave of the regular American procurement officer, CS Jakarta's liaison point was an FSN employee. What happened occurred as a result of staff inexperience and the inability of the hotel to generate a timely and correct pro forma invoice, NOT a failure to communicate with the procurement office. To the contrary, CS Jakarta was in continual communication with them in the run-up to the Secretary's arrival.

14. Schedule administrative and financial management training for appropriate staff in Indonesia as soon as possible.

CS Response
This is a top priority for OIO, and we will schedule administrative and financial management training for EAP personnel as soon as its feasible.

15. Update all appropriate sections of the US&FCS Operations Manual.

CS Response
I will instruct the Office of Planning, which is responsible for updating the US&FCS Operations Manual to include a new section on the functions of the

regional directors within the Office of International Operations.

Through your draft report and our response, we have covered a lot of ground. From the recommendations, it is clear that we share a desire to improve CS operations. Again, I would like to thank you for this opportunity to respond and look forward to receiving the final version.