



USAID
FROM THE AMERICAN PEOPLE

OFFICE OF INSPECTOR GENERAL

**SURVEY OF USAID'S TRADE
CAPACITY BUILDING
PROGRAMS TO SUPPORT
IMPLEMENTATION OF FREE
TRADE AGREEMENTS**

SURVEY REPORT NO. 9-000-07-002-S
NOVEMBER 30, 2006

WASHINGTON, DC



USAID
FROM THE AMERICAN PEOPLE

Office of Inspector General

November 30, 2006

MEMORANDUM

TO: EGAT/EG Director, Stephen J. Hadley

FROM: IG/A/PA Director, Steven H. Bernstein /s/

SUBJECT: Survey of USAID's Trade Capacity Building Programs to Support Implementation of Free Trade Agreements (Report No. 9-000-07-002-S)

This memorandum transmits our final report on the subject survey. In finalizing this report, we considered your comments on our draft report and have included them, in their entirety, in Appendix II.

This is not an audit report. However, this survey report includes four recommendations to strengthen certain aspects of USAID's trade capacity building activities. In your written comments, you concurred with these recommendations and described actions planned and taken to address our concerns. As a result, we determined that final action has been taken on Recommendation No. 1 and that management decisions have been reached on Recommendation Nos. 2, 3, and 4. Please coordinate final action on Recommendation Nos. 2, 3, and 4 with USAID's Office of the Chief Financial Officer—Audit, Performance, and Compliance Division.

I want to express my appreciation for the cooperation and courtesy extended to my staff during the survey.

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SUMMARY OF RESULTS

USAID reported nearly \$695 million in trade capacity building (TCB) activities in 2005. It defines TCB activities as assistance that builds countries' ability to take advantage of trade opportunities in ways that generate economic growth and reduce poverty (see page 2).

In response to a Congressional request, the Office of Inspector General conducted this survey at USAID/Washington and at five missions worldwide.¹ We designed the survey to determine: (1) whether USAID provided guidance to the field and host countries regarding the reforms to be addressed in its TCB programs; (2) whether USAID's TCB programs supported implementation of free trade agreements (FTA) with developing countries; (3) whether the 2006 National Export Strategy reflected USAID's current and planned TCB accomplishments; (4) the status of USAID's small business trade matchmaking efforts (see page 4).

We determined that USAID provided guidance to the field and host countries regarding the reforms to be addressed in its TCB programs and that many of the TCB programs tested supported implementation of FTAs with developing countries (see pages 5 and 7). However, we found that the Trade Promotion Coordinating Committee's 2006 National Export Strategy did not reflect USAID's current and planned TCB accomplishments (see page 11). In addition, we determined that although USAID does not currently fund a global small business trade matchmaking program, several missions surveyed do support matchmaking activities (see page 12).

Although many of the TCB activities tested either supported implementation of FTAs or met the definition of a TCB activity and supported trade-related activities, we identified several opportunities for strengthening USAID's TCB activities. Accordingly, this report includes four recommendations, as follows: to include a link to *The Online Survey User's Guide* on the U.S. Government's TCB database website, which USAID maintains; to disclose the limitations of data reported in the database; to develop and distribute a menu of mission-level TCB performance indicators; and to notify USAID's Office of the Administrator of the requirement to appoint a representative to the Trade Promotion Coordinating Committee (see pages 7, 9, 10, and 12).

The Office of Economic Growth of USAID's Bureau for Economic Growth, Agriculture and Trade concurred with all four recommendations and described actions planned and taken to address our concerns. As a result, we determined that final action has been taken on Recommendation No. 1 and that management decisions have been reached on Recommendation Nos. 2, 3, and 4 (see page 15).

Management comments are included in their entirety in Appendix II.

¹ The five missions surveyed were El Salvador, Honduras, Nicaragua, the Philippines, and South Africa.

BACKGROUND

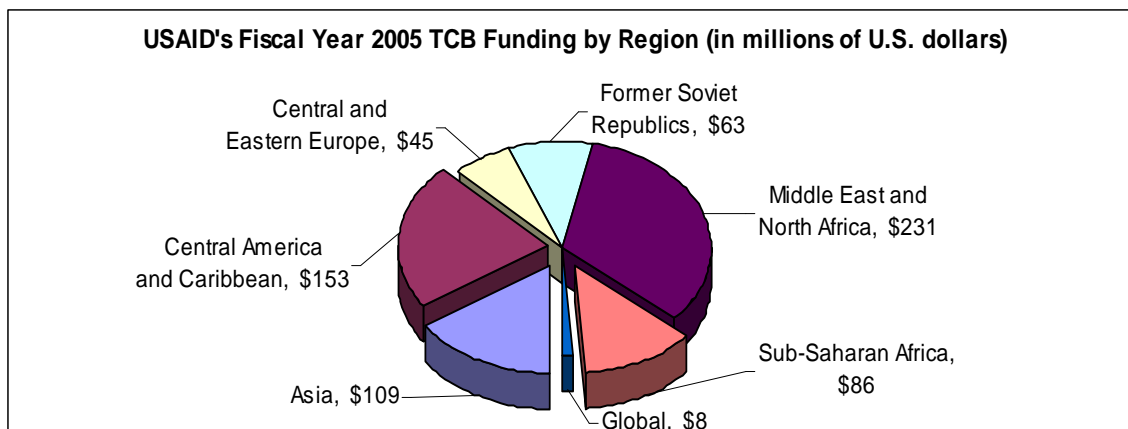
Countries that actively participate in the global market are said to enjoy stronger economic growth and rise out of poverty faster than those with a limited participation. Although there are considerable benefits to international trade, such as higher productivity, cheaper imports, and increased exports, many developing countries remain hesitant or unable to step into the global market. Therefore, to encourage developing countries to participate more fully in the international market, the U.S. negotiates with developing countries to enter into free trade agreements (FTA).

FTAs are enforceable contracts between two or more nations that reduce or remove barriers to trade and reciprocate preferential market access. Each provision of a FTA is designed to address a particular constraint that hinders trade between the parties. The U.S. is currently a party to bilateral and multilateral free trade agreements, as well as the World Trade Organization, a group of approximately 150 nations that accede and adhere to a single treaty that outlines each member's specific market access commitments. USAID supports developing countries entering into such agreements by providing the technical assistance necessary to implement the agreements and by addressing the economic conditions that arise as a result of the implementation of a FTA. USAID often provides this assistance through its trade capacity building (TCB) programs.

USAID defines TCB as assistance that builds countries' ability to take advantage of trade opportunities in ways that generate economic growth and reduce poverty. For example, USAID's TCB activities in developing countries include improving customs procedures, designing environmental standards, and developing a competitive workforce.

During fiscal year 2005, USAID reported nearly \$695 million in TCB activities. As shown in the graph on the following page, the Middle East and North Africa received the greatest amount of TCB funding, \$231 million. The countries in our survey sample are located in the Central America and Caribbean, Asia, and Sub-Saharan Africa regions, which received the three next highest amounts of USAID TCB funding. USAID reported that these regions received \$153 million, \$109 million, and \$86 million, respectively, in TCB funding in 2005.²

² The source of this data, as well as the data in the graph and chart on the next page, is the U.S. Government's TCB database, located at <http://gesdb.usaid.gov/tcb/index.html>. This data is unaudited.



The chart below shows USAID's fiscal year 2005 TCB funding by category. Definitions for these categories are found in Appendix III.

USAID's Fiscal Year 2005 TCB Funding by Category (in millions of U.S. dollars)	
WTO Awareness	\$4.5
WTO Accession	\$8.6
WTO Agreements	\$14.9
Trade Facilitation	\$309.6
Human Resources & Labor Standards	\$5.1
Financial Sector Development & Good Governance	\$109.1
Physical Infrastructure Development	\$48.9
Environmental Trade & Standards	\$26.7
Competition Policy & Foreign Investment	\$26.0
Trade-Related Agriculture	\$88.6
Services Trade Development	\$17.7
Government Transparency & Inter-Agency Coordination	\$34.1
Other TCB Activities	\$1.0
Total Fiscal Year 2005 USAID Funding	\$694.8

The five countries included in our survey reported a little over \$48 million in TCB activities for fiscal year 2005. For fiscal year 2006, USAID reported funding of nearly \$37 million in TCB activities for these five countries.³

³ This fiscal year 2006 figure is unaudited and based on preliminary data from the U.S. Government's TCB database. As of the date of this report, USAID's fiscal year 2006 total reported funding for TCB activities was not available.

SURVEY OBJECTIVES

The Office of Inspector General conducted this survey, as a result of an August 4, 2006 Congressional request, to answer the following questions:

- Did USAID provide guidance to the field and host countries regarding the reforms to be addressed in its trade capacity building programs?
- Did USAID's trade capacity building programs support implementation of free trade agreements with developing countries?
- Did the 2006 National Export Strategy reflect USAID's current and planned trade capacity building accomplishments?
- What is the status of USAID's small business trade matchmaking efforts?

Appendix I contains a discussion of the survey's scope and methodology.

SURVEY FINDINGS

Did USAID provide guidance to the field and host countries regarding the reforms to be addressed in its trade capacity building programs?

USAID provided guidance to the field and host countries regarding the reforms to be addressed in its trade capacity building (TCB) programs. For example, USAID coordinated with other U.S. Government agencies involved in trade-related issues, and provided TCB guidance to USAID mission staff and host country officials on a country-by-country basis. USAID also disseminated guidance through its 2003 TCB Strategy, formal and informal coordination efforts, training, temporary duty assignments, newsletters, and the U.S. Government's TCB database.⁴

In February 2003, USAID's Bureau for Economic Growth, Agriculture and Trade (EGAT) issued global guidance related to its TCB strategy in a report called, *Building Trade Capacity in the Developing World*. This guidance states that USAID's goal is "to increase the number of developing and transition countries that are harnessing global economic forces to accelerate growth and increase incomes." To accomplish this end, the guidance states that USAID's TCB programs will support participation in trade negotiations, implementation of trade agreements, and economic responsiveness to opportunities for trade. As of the date of this report, USAID officials consider this guidance to represent its TCB global strategy.

In addition to its TCB strategy, USAID is an active member of several interagency committees and working groups supporting TCB activities. The Office of the United States Trade Representative (USTR) administers and chairs both the Trade Policy Staff Committee (TPSC) and the Trade Policy Review Group (TPRG), which are sub-cabinet interagency trade policy coordination groups. The TPSC and TPRG rely on USAID's input from the field and help design U.S. trade policy approaches. USAID is also a member of the USTR-led interagency Trade Capacity Building working group. A USAID representative attends meetings of all three groups. Additionally, a USAID officer is currently sitting for one year at USTR.⁵

USAID also coordinates with other U.S. Government agencies to support the trade negotiation process. For example, to assist USTR's negotiations with the trade ministers of host countries, USAID coordinates with other host country officials to ensure that issues requiring technical assistance that arise during the negotiations are addressed.

⁴ In 2001, USAID conducted a survey on behalf of the Office of the United States Trade Representative to identify and quantify the U.S. Government's TCB activities in developing countries. This survey evolved into a public database, which is updated annually. USAID is responsible for maintaining this database and disseminates annual reporting guidance, called *The Online Survey User's Guide*, to the participating U.S. Government agencies. The database is located at <http://quesdb.usaid.gov/tcb/index.html>.

⁵ According to USAID officials, as of the date of this report, there are no plans to extend this position past the summer of 2007.

In addition, USAID coordinates in the field with its USAID mission staff, host country officials, and USTR. Most of the five USAID missions surveyed reported some form of in-country collaboration, largely informal, with other U.S. Government agencies. For example,

- In El Salvador, representatives from USAID, the Department of State, the Department of Commerce, and the Department of Agriculture are working to establish regular meetings to discuss the country's economy.
- In the Philippines, representatives from USAID, the Department of State, the Department of Commerce, and the Department of Agriculture hold weekly policy review meetings, where high-level TCB issues and resolutions are discussed.
- In Nicaragua, the U.S. Embassy and USAID recently created a "Trade Team," whose members plan to meet regularly with U.S. and Nicaraguan business persons and industry associations. The team plans to coordinate TCB and other training programs to help the local business community comply with the Central America-Dominican Republic Free Trade Agreement (CAFTA).⁶

USAID also provided TCB guidance through trade-related training courses. According to USAID officials, over the past five years, EGAT conducted eight specialized staff training courses on TCB issues, in which 240 USAID staff members participated. Five of these courses were offered in Washington, and three were conducted in the field (Ecuador, Guatemala, and Switzerland). The five-day training course in Geneva, Switzerland, organized in collaboration with USTR, was offered to staff from USAID missions in Africa with a particular interest in World Trade Organization (WTO) related activities.

Additionally, TCB-related conferences are sometimes held at the mission level. For example, USAID/Southern Africa sponsored a Trade Capacity Building conference in October 2006 that was attended by USAID's implementing partners from Sub-Saharan African countries, as well as by USAID/South Africa officials.⁷ The event focused on the African Growth and Opportunity Act, or AGOA, an act designed to give trade preferences to eligible Sub-Saharan African countries in regions where there is no free trade agreement (FTA) with the U.S.

In addition to the training courses, EGAT provides TCB guidance through temporary duty assignments. According to USAID officials, several EGAT officers have recently completed or planned temporary duty assignments to Ecuador, Mali, Haiti, and Yemen. During these assignments, USAID officials stated that they meet with host country officials, such as trade negotiators, customs officials, and finance ministers.

USAID also provides TCB guidance to the field and host countries through regularly-published newsletters. These publications, like the Latin American and the Caribbean Bureau's *LAC Trade Matters* and EGAT's internal newsletter, discuss economic growth activities and topics, including FTAs and TCB activities. For example, a recent *LAC*

⁶ CAFTA is a regional, multilateral FTA between the governments of the U.S. and Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras, and Nicaragua.

⁷ USAID/Southern Africa is a regional mission, located in Botswana. It is USAID's Southern Africa Global Competitiveness Hub (Trade Hub).

Trade Matters concentrated on trade issues specific to the region, many dealing with the implementation of CAFTA. Also, a recent edition of EGAT's newsletter included an article discussing the WTO Ministerial meeting held in Hong Kong in late 2005.

As discussed on page 5, U.S. Government-funded TCB activities are entered into a USAID-maintained Government-wide database, which is updated annually by an online survey. *The Online Survey User's Guide (User's Guide)* provides guidance on TCB activity definitions, categories of activities, and supplies examples of what are and are not TCB activities. The categories and definitions used in the database were designed collaboratively by USAID, USTR, and other U.S. Government agencies.

Although USAID provided guidance regarding the reforms to be addressed in its TCB programs, we noted that the database website did not include a link to the *User's Guide*. This issue is discussed in the following section.

Database Website Needs Link to *User's Guide*

According to the *User's Guide*, dollar amounts included in the database are reported on an obligations or planned obligations basis.⁸ However, one of the five missions surveyed reported data based on estimated disbursements, rather than obligations, resulting in inconsistently reported data. This occurred because the mission staff responsible for submitting the data had not received the guidance, which had been distributed via email. The public website containing the database did not include a link to the *User's Guide*.

The database is available for public use, and it is the main source of TCB funding information for the Congress, Executive Branch agencies, the WTO, the international donor community, and host country officials. The *User's Guide* does not appear on the public website containing the database.

To reduce the risk of misunderstanding by USAID mission staff, and other U.S. Government officials responsible for providing information to the database, and to provide database users with information on the nature of the data presented, we are making the following recommendation.

Recommendation No. 1: We recommend that the Director of USAID's Office of Economic Growth include a link to the Online Survey User's Guide on the trade capacity building public database website.

Did USAID's trade capacity building programs support implementation of free trade agreements with developing countries?

Many of USAID's TCB programs tested supported implementation of FTAs with developing countries. Three of the five countries (El Salvador, Honduras, and

⁸ Funds are considered obligated when the U.S. Government has a legal liability to pay for specific goods or services.

Nicaragua) included in our survey had entered into a FTA with the U.S., and many of the TCB activities tested in these countries supported implementation of CAFTA provisions and requirements. The two other countries surveyed (the Philippines and South Africa) did not have bilateral FTAs with the United States; however, the TCB activities tested in the Philippines generally supported a WTO agreement, while TCB activities in South Africa met the definition of a TCB activity.

Some TCB activities tested were specifically designed and implemented to address an identified trade constraint in a FTA. For example, the *Trade, Investment and Competitiveness Policy* activity in Honduras was designed to improve the business climate, increase exports, increase the competitiveness of the Honduran economy, and help the country implement CAFTA—by creating an independent research policy and analysis unit. This project has assisted the Government of Honduras in passing laws to reform custom procedures and regulations and to develop a system of food inspection.

Additionally, TCB activities tested in Honduras, Nicaragua, and El Salvador indirectly supported the implementation of a FTA, and some of these addressed CAFTA. For example, these activities included improving sanitary standards in traded goods, developing the financial sector and eco-tourism, and complying with environmental law. In addition, activities tested in the Philippines appeared to generally support WTO provisions and requirements. Activities tested in South Africa, although not directly supporting implementation of a FTA, provided financial, trade, and market access assistance to small and medium enterprises in the services and manufacturing sectors.

Although many of the TCB activities tested either supported implementation of a FTA or met the definition of a TCB activity and supported trade-related activities, we identified several issues which should be addressed to strengthen USAID's TCB activities. These issues are discussed in the following sections.

Database Website Needs to Disclose the Limitations of Reported Data

Summary: The *Online Survey User's Guide* provides instructions for reporting to the TCB database. At the five missions surveyed, the data sampled revealed the use of a significant amount of staff judgment and varying methods for estimating funding amounts. However, the database website does not disclose the estimated nature or the limitations of the data reported. This could result in database users misinterpreting the reported data.

While, for the most part, the activities tested at the five missions appeared to be TCB activities, it was sometimes difficult to determine whether activities actually met the definition of a TCB activity. Mission staff at one mission said that the activities reported in the TCB database were incidental or by-products of other programs, such as economic growth programs.

The *User's Guide* provides definitions (see Appendix III) to help determine whether an activity should be classified as TCB and how to allocate the related dollar amount. However, this determination is still subject to mission judgment, creating a lack of consistency among reporting missions. For example, because most TCB activities are

attributed from other programs, the *User's Guide* states that mission staff will need to “exercise a reasonable amount of judgment in making the best estimate” of the dollar amount allocated from the program to the TCB activity. Additionally, the guidance states that activities should be reported on an obligations or planned obligations basis. While EGAT conducts a review of the mission-submitted activities before inclusion in the database, the review looks for obviously unusual activities or dollar amounts. According to USAID officials, to minimize potential omissions, the review team also compares the current submission with that of the previous year and follows up with missions where necessary.

The following are examples of the judgmental and estimated nature of the sampled activities reported in the fiscal year 2005 database:

- One activity for \$3 million was included in the database as a fiscal year 2005 obligation. The activity was subsequently cancelled by the mission due to budget cuts; however, the TCB database was not updated to reflect the cancellation.
- An activity for a little over \$1 million was included in the database even though the amount was primarily used to pay salaries of Foreign Service National staff working on the mission's economic growth portfolio.
- A watershed project was included in the database by one mission, but a similar watershed project in another mission was not included.

While we understand the necessity of using estimates and projections in reporting TCB activities, disclosing the use of these estimates to database users will increase transparency, enhance the usability of the information reported, and reduce the risk of misinterpreting the reported data. Therefore, we are making the following recommendation.

Recommendation No. 2: We recommend that the Director of USAID's Office of Economic Growth include a disclaimer on the trade capacity building database website, disclosing the nature and limitations of the data reported—specifically, that data is reported on an obligations or planned obligations basis, and that the dollars are often an estimated and judgmentally-determined component of a larger activity.

Trade Capacity Building Performance Indicators Need to Be Developed

Summary: USAID has not developed mission-level TCB performance indicators, although it agreed to develop such indicators in response to a 2005 Government Accountability Office (GAO) report. According to USAID officials, a contractor began to develop a set of TCB indicators, but the work was not completed because the project was larger than the budget permitted. Without such guidance, missions may find it difficult to monitor and measure the results of their TCB activities and to evaluate their effectiveness.

In the missions surveyed in CAFTA countries, some of the TCB activities tested included performance indicators, which appeared to be TCB performance indicators. For example, a TCB activity in Nicaragua included two indicators which appeared to be TCB indicators—"the number of barriers to trade for agricultural products reduced" and "the number of laws, policies, and regulations adopted to increase trade and investment." In El Salvador, the Mission's performance management plan included TCB-related indicators, such as "exports as a percentage of Gross Domestic Product (GDP)" and "the average number of hours for clearance and release of risk-determined goods in customs." However, we could not conclusively determine whether these were TCB indicators because USAID had not developed guidance as to what constitutes a TCB indicator.

In addition, some of the indicators appeared to measure the activities performed under each award rather than results that show the program goal is being achieved. For example, one of the programs supporting the implementation of CAFTA was designed with the objective of helping the host country to successfully implement the agreement. The project assisted the country in passing laws to reform customs procedures and regulations and to create a system of food inspection. However, instead of measuring the number of laws, procedures or regulations that were enacted as a result of USAID assistance, indicators measured the number of hired consultants provided to the government to expedite CAFTA administration and implementation, and the number of specific studies produced by short-term consultants in support of the administration of CAFTA and other FTAs.

A recent GAO report mentioned that USAID had failed to develop a set of indicators to measure most TCB activities.⁹ In its response to the GAO report, USAID agreed to develop TCB performance indicators and share its finding with other agencies that fund and implement TCB assistance. USAID's Administrator instructed the Bureau for Program and Policy Coordination to develop standard program performance indicators by June 2005, some of which would be built on a detailed EGAT study of TCB performance indicators. As of the date of this report, USAID had not yet developed a standard set of indicators that could be used to measure the performance of USAID's TCB activities. According to USAID officials, a contractor began to develop a set of TCB indicators, but the work was not completed because the project was larger than the budget permitted.

Therefore, to assist missions in monitoring and measuring the results of their TCB activities and to evaluate their effectiveness, we are making the following recommendation.

Recommendation No. 3: We recommend that the Director of USAID's Office of Economic Growth develop and distribute a menu of mission-level trade capacity building performance indicators.

⁹ GAO-05-150, entitled *U.S. Trade Capacity Building Extensive, but Its Effectiveness Has Yet to Be Evaluated*, dated February 2005.

Did the 2006 National Export Strategy reflect USAID's current and planned trade capacity building accomplishments?

The 2006 National Export Strategy (NES) did not reflect USAID's current and planned TCB accomplishments.¹⁰ According to USAID officials, USAID does not plan TCB activities on an agency-wide basis, as most TCB activities are funded and implemented at the mission level. Additionally, there are no specific funding mechanisms or budget line items devoted solely to funding TCB activities, and TCB activities are funded from many different sources. Therefore, no formal budgets or projections exist for TCB activities, and EGAT officials reported that it is difficult to estimate final TCB figures, even within the same year. Therefore, fiscal year 2005 TCB accomplishments and 2006 planned TCB accomplishments were not available and did not appear in the 2006 NES.

The 2006 NES also did not describe USAID's fiscal year 2005 TCB activities, some of which supported the 2006 NES theme of strategic partnerships. The 2006 NES reflected only the following two 2005 USAID activities:

- USAID had recently signed a Development Credit Authority (DCA) agreement to stimulate investment in clean energy and water enterprises in India. The NES also stated that USAID and other U.S. Government entities actively participated in the Asia Pacific Partnership to develop energy efficient projects in India.
- USAID was funding the Alliance for CAFTA Action initiative to increase private sector support, and train and educate workers.

In the Performance Section of USAID's 2005 Performance and Accountability Report, USAID reported on its two agency-wide TCB performance indicators. The first indicator measured performance based on the increase in exports in countries where USAID provides trade development assistance, while the second indicator measured the increase in the number of these countries that have achieved some stage of WTO accession and compliance. USAID rated both performance indicators as "on target." However, information on these targets was not reported in the 2006 NES.

According to the Trade Promotion Coordinating Committee (TPCC) Secretariat, the NES' theme changes every year or so. The theme for the 2006 NES was the creation of public-private partnerships to promote greater participation of U.S. companies in the global economy. Although the 2006 NES provided case studies involving partnerships between other TPCC member agencies and private companies, it did not include descriptions of USAID's Global Development Alliances, which use public-private alliances to bring new resources, ideas and technologies to bear on TCB issues.

The 2006 NES defined India, China, CAFTA, and FTA partners in the Middle East as priority overseas markets, and it discussed current trade barriers, trade promotion efforts and major projects in these countries. Several projects that provided assistance in areas such as technical assistance, information and communications technology and

¹⁰ The NES (subtitled, "The Administration's Trade Promotion Agenda") is a mandated annual report, prepared by the Trade Promotion Coordinating Committee, and is submitted to the Congress. The 2006 NES was issued in June 2006 and, therefore, reported on fiscal year 2005 data. The TPCC is an interagency group, chaired by the U.S. Secretary of Commerce, established to coordinate the export promotion and financing activities of the U.S. Government.

investment were highlighted. With the exception of the USAID-funded CAFTA and DCA programs mentioned above, there was no other mention of USAID's TCB programs in the 2006 NES.

Additionally, as of the date of this report, USAID did not have a representative on the TPCC. This issue is discussed in the following section.

Notification Needs to Be Made of the Requirement to Appoint a TPCC Representative

The lack of USAID accomplishments in the 2006 NES may be at least partially due to the fact that there is no longer formal coordination between USAID and the TPCC. USAID officials were not familiar with the theme of the 2006 NES, and the TPCC Secretariat was not aware of USAID's programs involving public-private alliances. According to a USAID official, USAID was an active participant in the TPCC several years ago. A former USAID representative to the TPCC recalled that he played a central role in obtaining information from USAID's bureaus to include in previous NES reports. Officials at the TPCC Secretariat confirmed that USAID was once actively involved in the TPCC. However, the TPCC Program Budget Authority Tables no longer include USAID funding, and for several years the tables have included a footnote stating that figures for USAID do not appear in this table, "...as USAID activities support trade promotion indirectly through broad economic growth and reform, unlike other activities that more directly fund trade finance or promotion."

Executive Order 12870 and the Export Enhancement Act of 1992 state that members of the TPCC shall be appointed by the heads of their departments or agencies. However, USAID does not currently have a TPCC representative. According to USAID officials, the most recent USAID representative to the TPCC retired earlier this year and was not replaced. Therefore, we are making the following recommendation.

Recommendation No. 4: We recommend that the Director of USAID's Office of Economic Growth, in coordination with the Assistant Administrator of the Bureau for Economic Growth, Agriculture and Trade, notify the Office of the Administrator of the requirement to appoint a USAID representative to the Trade Promotion Coordinating Committee, as required by Executive Order 12870 and the Export Enhancement Act of 1992.

What is the status of USAID's small business trade matchmaking efforts?

Although USAID does not currently fund a global small business trade matchmaking program and has no plans to develop such a program, several missions surveyed do have matchmaking activities. From 1996 to 2004, USAID funded the Global Trade and Technology Network (GTN), an internet-based database that created alliances ("matchmaking") between U.S. and host country businesses. According to USAID officials, funding for the GTN stopped when the program was privatized. Some informal matchmaking activities occur at the mission level, and, according to USAID officials,

other USAID programs have the potential to have a greater developmental impact than the GTN. Therefore, these officials expressed no interest in reestablishing a small business matchmaking program.

The GTN encouraged small and medium businesses to build trade linkages, identify investment opportunities, and access new technologies through an e-commerce-based platform. GTN's representatives in the field, and later small and medium enterprises, solicited companies to register them in a global database. Once registered, firms in GTN program countries submitted leads to the internet-based platform. These leads were matched and electronically disseminated to GTN-registered firms worldwide. Interested firms responded to the leads directly through the GTN platform via a letter of interest. GTN program staff further facilitated the transactions and provided advice on trade finance opportunities.

However, according to USAID officials, the GTN program was not cost-effective—over the life of the program, it processed approximately 495 transactions, at a cost of over \$35 million. International Business Linkages LLC subsequently took over the program and currently maintains the GTN online at www.usgtn.net. According to USAID officials, the program receives about two leads a week.

Three of the five missions surveyed reported small business trade matchmaking activities, as follows:

- In El Salvador, two TCB activities support some small business trade matchmaking services. While the primary intent of these activities is to assist Salvadoran businesses, U.S. businesses may also receive some benefit.
- In South Africa, a TCB activity encourages small business trade matchmaking activities, by helping develop historically disadvantaged small and medium enterprises. Representatives from these enterprises participate in trade fairs or conferences in the U.S. to promote South African products, such as wines, handicrafts, and agricultural produce. From these activities, South African entrepreneurs are introduced to distributors, wholesalers, retailers, restaurants, and other markets.
- In Nicaragua, a TCB activity helps develop commercial links among U.S. companies and Nicaraguan small farmers. For example, in fiscal year 2005, eight Nicaraguan agricultural producers came to the U.S. to attend a produce marketing association convention, resulting in three different sales contracts for Nicaraguan growers with U.S. importers.

According to an EGAT official, USAID has progressed beyond the GTN model. According to this official, current USAID programs, including the Last Mile Initiative (LMI), Global Development Alliances (GDA), and the International Business Linkages Program's "C-Level" project, have the potential to be more effective and have a greater developmental impact than the GTN. These programs, while not formal small business trade matchmaking activities, benefit U.S. businesses by building strategic alliances with partners in development areas.

According to an EGAT official, the LMI, a global program launched in 2004, is designed to increase the access of the rural poor to communications technology. Over 30 LMI

projects are currently hoping to increase productivity and the developmental prospects of farmers, small businesses, and others in rural areas underserved by telecommunication services. Many LMI projects combine wireless telecommunication approaches and telephone services via the Internet or take advantage of the increased bandwidth offered by cellular phone service providers. LMI projects are currently assisting pineapple farmers in Ghana to transmit bar coded logistics information along the supply chain to reduce spoilage while in transit to European markets; enabling coffee farmers in Rwanda to deal directly with international customers through email services provided over a cellular phone network; and providing wireless telecommunication services to entire Guatemalan towns.

While GDAs generally support foreign small businesses in exporting goods, they may also help U.S. businesses to sell imported goods to the U.S. market. According to USAID officials, in a recent GDA partnership, coffee farmers in Rwanda were paired with a U.S. company to produce a specialty line of coffee beans for U.S. consumers. Similar matches are sought for producers of cashews and cocoa. Although GDAs have created partnerships between U.S. and foreign businesses, USAID was not able to tell us how many U.S. small businesses have benefited from GDAs.

Another program, the International Business Linkages Program's "C-Level" project, funded by USAID from March 2005 to September 2006, established a professional network of senior-level executives in information and communications technology-related companies in developed and developing markets. The project transfers "best practices" between these companies and assists executives from developing markets to access leading global information and communications technology executives. According to USAID officials, this program has, to date, assisted companies in 19 countries, including several U.S. small businesses. For example, a broadband firm from the U.S. has linked with an Algerian telecommunications company to distribute its services in Algeria. Also, an American management consulting firm linked with a Philippine investment group to jointly open a management consulting firm in Manila.

EVALUATION OF MANAGEMENT COMMENTS

In its response to our draft report, the Office of Economic Growth of USAID's Bureau for Economic Growth, Agriculture and Trade (EGAT/EG) concurred with all four recommendations and described actions planned and taken to address our concerns. As a result, we determined that final action has been taken on one of the four recommendations and that management decisions have been reached on the three remaining recommendations, as follows:

To address Recommendation No. 1, EGAT/EG has added a link to *The Online Survey User's Guide* on the trade capacity building (TCB) database website. Accordingly, final action has been taken on this recommendation.

To address Recommendation No. 2, EGAT/EG plans to disclose the nature of the data reported on the TCB database website by January 15, 2007. Accordingly, a management decision has been reached for this recommendation.

To address Recommendation No. 3, EGAT/EG plans to finalize a set of TCB performance indicators during the coming months. Accordingly, a management decision has been reached for this recommendation.

To address Recommendation No. 4, EGAT/EG plans to coordinate with EGAT's Assistant Administrator, by January 15, 2007, to convey to USAID's Office of the Administrator the requirement to appoint a USAID representative to the Trade Promotion Coordinating Committee. Accordingly, a management decision has been reached for this recommendation.

Management comments are included in their entirety in Appendix II.

SCOPE AND METHODOLOGY

Scope

The Office of Inspector General (OIG) conducted this survey in accordance with the General Standards of the *Government Auditing Standards*. However, as this survey was not an audit, auditing standards relative to such matters as evidence and reporting were not applied. For example, we did not design this survey to gather the same level of evidential matter as we would in an audit, as the survey was intended to be a quick turn-around engagement. In addition, we did not develop—to the extent required in an audit—criteria, cause and effect to support our findings in all cases.

This report summarizes the results of survey work conducted at USAID/Washington, and at five selected USAID missions and was conducted as a result of a Congressional request. The survey was designed to answer the following questions:

1. Did USAID provide guidance to the field and host countries regarding the reforms to be addressed in its trade capacity building (TCB) programs?
2. Did USAID's TCB programs support implementation of free trade agreements (FTA) with developing countries?
3. Did the 2006 National Export Strategy reflect USAID's current and planned TCB accomplishments?
4. What is the status of USAID's small business trade matchmaking efforts?

In planning and performing the survey, we reviewed relevant criteria, including the 2005 *Online Survey User's Guide*, the *Export Enhancement Act of 1992*, and *Executive Order 12870*. We also reviewed mission controls over providing data to the TCB Database. There were no prior OIG audit findings affecting the areas reviewed in this survey.

In addition to fieldwork performed at USAID/Washington from September 13 to November 15, 2006, our Regional Inspector General offices performed survey work at the following five judgmentally selected USAID missions during October 2006: El Salvador, Honduras, Nicaragua, the Philippines, and South Africa. The survey sample at these five missions represented coverage of just over 10 percent of the \$477 million in the survey universe (see chart in the Methodology section on the next page).

Due to the presidential election in Nicaragua, we were unable to meet with the Mission's partners implementing TCB activities. However, this did not adversely impact the answers to our survey objectives.

The scope for objective one included TCB guidance—issued by USAID during fiscal years 2005 and 2006—for activities which supported bilateral, regional, or multilateral FTAs. The scope for objective two included \$477 million of the nearly \$695 million in TCB activities that USAID reported funding in fiscal year 2005. This scope included funding for TCB activities in USAID-presence countries participating in a bilateral FTA, a multilateral FTA, or reporting funding in support of the World Trade Organization, as

reported in the TCB database as of August 9, 2006. The scope for objective three included the 2006 National Export Strategy (NES) and USAID's 2005 Performance and Accountability Report (PAR). The scope for objective four included USAID's small business trade matchmaking efforts during fiscal years 2005 and 2006.

Methodology

To answer objective one, we conducted interviews with officials at the Office of the U.S. Trade Representative (USTR), the Secretariat of the Trade Promotion Coordinating Committee (TPCC), and USAID/Washington. We also reviewed documentation related to TCB guidance, training, USAID newsletters, and interagency coordination.

To answer objective two, we conducted interviews with USAID officials in both Washington and the missions located in the surveyed countries, U.S. Embassy officials in the surveyed countries, and selected implementing partners in four of the five surveyed countries. We reviewed the Government Accountability Office (GAO) report, GAO-05-150, entitled *U.S. Trade Capacity Building Extensive, but Its Effectiveness Has Yet to Be Evaluated*. We also analyzed a judgmental sample of TCB activities implemented by the selected missions—as shown in the chart below—and we reviewed related award and implementing documents.

Mission	TCB Funding Reported for 2005 (millions of dollars)
El Salvador	\$13.9
Honduras	\$ 7.8
Nicaragua	\$ 6.5
Philippines	\$11.6
South Africa	\$ 8.6
Total Funding for Missions Surveyed	\$48.4
Total Survey Universe	\$477
Percentage of Universe Surveyed	10.14%

To answer objective three, we conducted interviews with officials at USAID/Washington and the Secretariat of the TPCC. We reviewed the 2006 NES, USAID's 2005 PAR, and GAO's report, GAO-06-660T, *Export Promotion: Trade Promotion Coordinating Committee's Role Remains Limited*.

To answer objective four, we conducted interviews with officials at USAID/Washington, USTR, and the Secretariat of the TPCC. We reviewed documentation related to USAID's small business matchmaking activities and its Global Development Alliances.

We did not determine materiality thresholds for our survey objectives, as they were not appropriate to this survey.



USAID
FROM THE AMERICAN PEOPLE

November 27, 2006

To: IG/A/PA Director, Steven H. Bernstein

From: EGAT/EG Director, Stephen J. Hadley /s/

Subject: EGAT/EG response to IG survey of USAID's trade capacity building programs

Thank you for providing EGAT/EG the opportunity to comment on the recent survey of USAID's Trade Capacity Building Programs to Support Implementation of Free Trade Agreements by the Office of the Inspector General. We appreciate the time and thoughtfulness you and your staff have put into this report.

EGAT/EG concurs with the recommendations of the report, and will take steps to implement them as soon as possible. Following are specific comments and points for clarification on the report and its recommendations.

If my staff or I can be of any further assistance, please let us know.

Background:

In considering the goals of this Survey, it is important to recall the respective statutory mandates for the Trade Promotion Coordinating Committee (TPCC) and for U.S. foreign assistance. Under the Export Enhancement Act of 1992 (Public Law 102-429, 106 Stat. 2186), implemented by Executive Order 12870, the TPCC is to “coordinate the export promotion and export financing activities of the United States Government.” In the Foreign Assistance Act of 1961 as amended (PL 87-195), Congress declares that U.S. foreign assistance programs should emphasize five principal goals:

- (1) the alleviation of the worst physical manifestations of poverty among the world’s poor majority;
- (2) the promotion of conditions enabling developing countries to achieve self-sustaining economic growth with equitable distribution of benefits;
- (3) the encouragement of development processes in which individual civil and economic rights are respected and enhanced;
- (4) the integration of the developing countries into an open and equitable international economic system; and
- (5) the promotion of good governance through combating corruption and improving transparency and accountability. (Sec. 101(a))

Consistent with the statutory goals of development assistance established in the FAA, USAID assistance programs – including trade capacity building (TCB) assistance – do not focus directly on the promotion and financing of U.S. exports. However, many types of TCB assistance clearly complement and indirectly advance the goals of the TPCC.

USAID TCB activities expand the circle of global prosperity, thereby “growing” markets for U.S. goods and services. Developing countries’ imports of U.S. products continue to grow very rapidly. It is expected that, by 2012, developing countries will absorb more than half of all U.S. exports.

Some examples of TCB activities that indirectly support U.S. exports include:

- Customs reform and trade facilitation activities, which reduce transaction costs, making U.S. goods more affordable to developing country consumers.
- Services liberalization, which expands services markets for U.S. companies.
- Intellectual Property Rights reform, which protects U.S. products in developing country markets.

Response to Recommendations:

The IG survey makes several specific recommendations regarding USAID’s management of TCB activities. EGAT/EG concurs with these findings and offers the following response and observations:

Recommendation 1: *We recommend that the Director of USAID's Office of Economic Growth include a link to the Online Survey User's Guide on the Trade Capacity Building public database website.*

EGAT/EG agrees with the recommendation to provide a link to the *Online Survey User's Guide* on the public database website. The link has already been added to the database website, and will be included annually on the data entry portal.

Recommendation 2: *We recommend that the Director of USAID's Office of Economic Growth include a disclaimer on the trade capacity building database website, disclosing the nature and limitations of the data reported – specifically, that data is reported on an obligations or planned obligations basis, and that the dollars are often an estimated and judgmentally-determined component of a larger activity.*

EGAT/EG agrees with the recommendation and will provide information regarding the nature of the data reported on the public website. The explanation will be posted no later than January 15, 2007.

EGAT/EG wishes to note for the record that the combination of written definitions and professional judgment it applies for tracking USG TCB obligations gives, in our view, the best picture possible of our trade capacity building activities on the ground. Such judgments are often necessary for identifying and describing trade capacity building activities that are intentionally integrated into larger economic growth, agriculture, and other related assistance programs.

EGAT/EG has developed detailed technical guidance and a management control system to maintain the accuracy and consistency of these program classification judgments. First, EGAT/EG provides an *Online Survey User's Guide (User's Guide)* to all reporting units. The *User's Guide* offers detailed guidance on TCB activity definitions, categories of activities, and examples of what are and are not TCB activities. Reporting units refer to this guidance in deciding which activities they report to the TCB Survey.

Second, USAID employs a permanent three-person technical review team that examines each submission to the TCB Survey for accuracy and consistency with the established categories and definitions. While each reporting unit applies its own judgment on what it reports, our three-person team, which understands TCB definitions in great depth, examines each submission. When the review team identifies submissions for which the reported funding commitments or categorization appear inaccurate or ambiguous, the team investigates the submissions with the appropriate reporting units and, within USAID, the appropriate regional bureaus. To minimize potential omissions, the review team also compares each year's submissions with data submitted in previous years and follows up with missions, bureaus or other agencies that have not responded.

Third, USAID issues semi-annual database revisions, reflecting adjustments in actual funding obligations reported to the Survey team by the original reporting units.

Recommendation 3: *We recommend that the Director of USAID's Office of Economic Growth develop and distribute a menu of mission-level Trade Capacity Building performance indicators.*

Currently, USAID is developing a detailed and comprehensive set of performance indicators for all of its work around the world. We anticipate this will be finalized over the next months. These performance indicators will include trade capacity building indicators, which, in turn, will include activities that are clearly and directly trade-related as well as activities defined otherwise (e.g., agriculture), which also improve the trade capacities of developing countries.

Recommendation 4: *We recommend that the Director of USAID's Office of Economic Growth, in coordination with the Assistant Administrator of the Bureau for Economic Growth, Agriculture and Trade, notify the Office of the Administrator of the requirement to appoint a USAID representative to the Trade Promotion Coordinating Committee, as required by Executive Order 12870 and the Export Enhancement Act of 1992.*

EGAT/EG will coordinate with the AA/EGAT to convey to the Office of the Administrator by January 15, 2007 the requirements laid out in Executive Order 12870 concerning the appointment of a representative to the TPCC. While this function had previously been fulfilled by the Bureau for Policy and Program Coordination, an alternative arrangement may need to be considered.

While EGAT/EG recognizes that the TPCC's annual National Export Strategy (NES) in recent years has not included USAID TCB accomplishments, we believe that further discussion with management is necessary to determine to what extent it is an appropriate vehicle in which to address USAID's TCB efforts. The IG survey correctly points out that the NES recognizes that "USAID activities support trade promotion indirectly through broad economic growth and reform, unlike other activities that more directly fund trade finance or promotion." As the theme of the report changes from year to year, the appropriateness of USAID's contribution may vary.

U.S. Government Trade Capacity Building Categories and Definitions

What Types of Activities Should Be Reported As “Trade Capacity Building”?¹¹

- Negotiating regional trade agreements
- Eliminating subsidies or price controls in the trade sector
- Improving trade statistics
- Encouraging business support services for exporting and importing companies
- Developing business information for export and import markets
- Drafting commercial codes
- Implementing antimonopoly policies
- Designing consumer protection policies
- Reforming government procurement
- Improving sanitary/phytosanitary standards in traded goods
- Promoting technology transfer to enhance trade
- Removing technical barriers to trade
- Applying rules of origin for trading purposes
- Improving customs procedures
- Developing a competitive workforce
- Encouraging trade finance
- Developing the financial sector
- Achieving sound fiscal, monetary, and exchange rate policies
- Developing necessary infrastructure for trade
- Designing environmental standards and technology
- Promoting investment agreements and investment protection mechanisms

What Type of Activities Should Not Be Reported As “Trade Capacity Building”?

- Support to microfinance or microenterprise institutions, *unless* it is specifically to promote the export of traditional handicrafts and other goods
- General activities to increase agricultural productivity, *unless* it is specifically to promote the export of particular agricultural products
- Technical assistance provided by a USG agency or unit *but* funded by the host country government or by a multilateral donor institution
- Privatization activities, *unless* they affect enterprises in the trading sector or increase the availability of trade finance
- Support to the development of natural resources, *unless* it is expected to foster cross-border exchange of those resources
- Assistance going directly to an economic country group that includes at least some non-developing country members, *e.g.*, APEC, *unless* it is aimed at only the developing country members
- Support for energy sector policy and institutional reform, *unless* it is expected to expand export capacity either directly or indirectly
- Support for improving governance and transparency at the local level of government
- An activity designed to improve the effectiveness of a USG program itself, *e.g.*, the appointment of senior advisors to facilitate decisions on program funding
- Support for national parks and conservation, *unless* it is designed specifically to attract foreign tourism trade
- Education activities *unless* they are specifically designed to improve trade-related skills or knowledge of trade policy issues, *e.g.*, introduction of international accounting standards or WTO rules workshops
- Child survival activities
- Democracy and governance activities, *unless* they are specifically designed to increase citizen participation in trade policymaking

¹¹ Source for Appendix III: *The Online Survey User’s Guide*.

U.S. Government Trade Capacity Building Categories and Definitions

TCB Category Definitions

Trade Facilitation has six components:

- **Customs Operation & Administration** is assistance to help countries modernize and improve their customs offices.
- **E-commerce Development & Information Technologies** is assistance to help countries acquire and use IT to promote trade by creating business networks and disseminating market information.
- **Export Promotion** is assistance to increase market opportunities for developing country producers.
- **Business Services & Training** is support to improve the associations and networks in the business sector, as well as to enhance the skills of business people engaged in trade.
- **Regional Trade Agreement (RTA) Capacity Building** represents assistance to an RTA or to an individual country that increases the ability of the RTA to facilitate trade. It can also include assistance to a potential member of an RTA that improves the analytical capacity of the country's government with respect to RTA issues. It is *not* intended to include TCB assistance in a specific area that is being provided under the auspices of an RTA.
- **Other Trade Facilitation** includes support to increase trade flows that is not categorized in one of the other five categories.

Human Resources & Labor Standards: Support of labor standards, worker rights, trade unions, workforce development, business education, and the social aspects of liberalization.

Physical & Economic Infrastructure: Assistance to establish trade-related telecoms, transport, ports, airports, power, water, and industrial zones.

Trade-related Agricultural Development: Includes support for trade-related aspects of the agriculture and agribusiness sector. Support that is intended to help countries participate in the WTO Agreements on Agriculture or SPS should not be included.

Environmental Sector Trade & Standards: Includes assistance to establish environmental standard or to promote environmental technology.

Governance/Transparency & Interagency Coordination: Includes support for institutional reform to improve governance and make policies more transparent, as well as assistance to help the different agencies of a host country government function more effectively in the trade policy arena.

Financial Sector Development & Good Governance: Includes financial sector work, monetary and fiscal policy, exchange rates, commodity markets, and capital markets.

Competition Policy & Foreign Investment Incentives: Support for the design and implementation of antitrust laws, as well as of laws and regulations related to investment and investor protections.

Services Trade Development: Includes all service industry sectors and two sub-components are specified Tourism Sector Development and Other Services Development.

WTO Accession: If the country is actively engaged in the WTO Accession process, then all assistance related to WTO and its Agreements should be reported as "WTO Accession."

WTO Awareness & Participation in General: If the country is not in the accession phase, then all assistance of a general or "awareness" nature should be reported on the line "WTO Awareness & Participation in General."

Activities to assist countries with specific WTO Agreements should be reported for the specific agreement:

- **Agreement on Trade in Goods**
- **Agreement on Agriculture**
- **Agreement on Sanitary and Phyto-Sanitary Measures**
- **Agreement on Technical Barriers to Trade**
- **Agreement on Trade Related Aspects of Investment Measures**
- **Agreement on Anti-Dumping**
- **Agreement on Customs Valuation Methods**
- **General Agreement on Trade in Services**
- **Agreement on Rules of Origin**
- **Agreement on Subsidies and Countervailing Measures**
- **Agreement on Government Procurement**
- **WTO Trade Policy Review Mechanism**
- **Agreement on Trade-Related Aspects of Intellectual Property Rights**
- **Agreement on Import Licensing Procedures**
- **Agreement on Safeguards**
- **Agreement on Disputes Settlement**
- **Other specific WTO Agreements**

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