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INTERNATIONAL TRADE

Observations on U.S. and Foreign Countries' Export Promotion Activities

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Highlights of [GAO-10-310T](#), a testimony to the Subcommittee on International Trade, Customs, and Global Competitiveness, Committee on Finance, U.S. Senate

Why GAO Did This Study

As Congress considers policies to bolster the recovery of the U.S. economy, it must consider the full range of tools available to stimulate growth and create new jobs, including promoting exports. According to the Department of Commerce, U.S. exports of manufactured goods totaled \$1.8 trillion in 2008—accounting for approximately 13 percent of the U.S. Gross Domestic Product. GAO's testimony addresses the benefits of exports and provides updated information on U.S. export promotion efforts. It also includes initial observations about foreign export promotion activities. The observations about U.S. export promotion efforts are based on a variety of reports and testimonies GAO has issued on international trade over the past 4 years. Observations about foreign export promotion practices are based on a preliminary review of several key expert studies.

What GAO Recommends

Based on reports from 2006 to 2009, GAO has made a number of recommendations to improve various U.S. export promotion activities.

View [GAO-10-310T](#) or [key components](#). For more information, contact Loren Yager at (202) 512-4347 or yagerl@gao.gov.

INTERNATIONAL TRADE

Observations on U.S. and Foreign Countries' Export Promotion Activities

What GAO Found

Exports, and trade more broadly, contribute to the U.S. economy in a variety of ways. Trade enables the United States to achieve a higher standard of living through producing and exporting goods and services that are produced here relatively efficiently, and importing goods and services that are produced here relatively inefficiently.

Rationales for export promotion programs include macroeconomic considerations such as job creation and economic growth. Others are based on microeconomic considerations such as “market failures,” for example where imperfect information prevents markets from generating the most efficient outcome. Rationales also exist for export programs based on achieving broader trade policy objectives, such as helping U.S. exporters overcome foreign trade barriers that make it difficult for U.S. products to penetrate foreign markets. However, measuring the effectiveness of export promotion activities is difficult. For example, quantifying the growth in exports is complicated by the fact that other factors, such as government policies and firm-specific conditions, also determine growth.

Export promotion efforts in the United States are guided by the National Export Strategy. According to the strategy, 20 agencies are part of the Trade Promotion Coordinating Committee (TPCC), of which 9 of the agencies have budgets for programs or activities related to export promotion, with the Departments of Commerce, Agriculture, and State actively engaged in export promotion overseas. Agency export promotion activities include providing basic export counseling; assisting with collecting and providing data on foreign markets; and advising firms on how to best market their products overseas.

While GAO has not recently performed an in-depth comparison of U.S. and foreign export promotion activities, the findings and recommendations in our past reviews of U.S. agencies are consistent with expert studies looking at export promotion practices in other countries. Specifically, GAO has identified elements of U.S. export promotion activities that warrant attention: (1) coordination; (2) targeted services for small and medium enterprises and other priorities; (3) performance monitoring; and (4) partnerships and methodologies for setting user fees. The expert studies GAO reviewed echo the importance of each of these elements with regard to the activities of foreign export promotion agencies and may be informative for policy discussions about U.S. export promotion activities.

Mr. Chairman and Members of the Subcommittee:

Thank you for the opportunity to appear today before the Subcommittee on International Trade, Customs, and Global Competitiveness to provide our perspective on the role of U.S. export promotion. As Congress considers policies to bolster the recovery of the U.S. economy, it must consider the full range of tools available to stimulate growth and create new jobs, including promoting exports. My statement today will provide an overview of (1) the benefits of exporting, rationale for export promotion activities and extent of U.S. activities; and (2) observations about U.S. and foreign export promotion, focusing on the importance of coordination, targeting services, performance monitoring, and collaborative partnerships. GAO has reviewed export promotion activities in agencies including the Department of Commerce and the Export-Import Bank over the years and recommended changes to improve the data and information regarding their export promotion activities, and the agencies have responded to our recommendations. For example, Commerce agreed with recommendations we made earlier this year to improve their procedures for determining costs and setting user fees and their information about customers and demand for the export promotion services they offer. Similarly, Ex-Im has taken several steps to respond to recommendations we made regarding determining the number of transactions that directly benefit small business, and improving the system for estimating the value of direct small business support for those transactions where the exporter is not known at the time Ex-Im authorizes the transaction.

My remarks about U.S. export promotion efforts are based on a variety of reports and testimonies we have issued on international trade over the past 4 years, and include some additional observations about foreign export promotion practices based on a preliminary review of several key expert studies. We conducted our work from November to December, 2009 in accordance with all sections of GAO's Quality Assurance Framework that are relevant to our objectives. The framework requires that we plan and perform the engagement to obtain sufficient and appropriate evidence to meet our stated objectives and to discuss any limitations in our work. We believe that the information and data obtained, and the analysis conducted, provide a reasonable basis for any findings and conclusions.

The Benefits of Exporting and U.S. Efforts to Promote Exports

Exports Provide Economic Benefits

Trade, and exports more specifically, contributes to the U.S. economy in a variety of ways. Trade generally enables the United States to achieve a higher standard of living through exporting goods and services that are produced domestically relatively efficiently, and importing goods and services that are produced domestically relatively inefficiently. An indication of this is that firms engaged in the international marketplace tend to exhibit higher rates of productivity growth and pay higher wages and benefits to their workers than domestically oriented firms of the same size.

In addition, the benefits of exports accrue to many U.S. states. For example, in 2008, according to Commerce, Oregon's exports totaled \$19.4 billion, with computers, electronics and agricultural products accounting for more than half of that amount. According to the Idaho Department of Commerce, in 2008, Idaho exported \$5.01 billion worth of goods, with exports of high-tech products including semiconductors, computers, and capital equipment accounting for 63 percent, or \$3.2 billion, of the total. Agricultural and food exports from Idaho totaled approximately \$676 million, about 14 percent of its total exports.

Exports can also serve as a countercyclical force for the U.S. economy, stimulating the U.S. economy when demand from abroad is greater than domestic demand. For several years, the United States increasingly imported more than it exported and served as an engine of growth for other nations. In contrast, when the U.S. economy slowed in 2007 through the first two quarters of 2009, the economic downturn was somewhat mitigated by an improving trade balance. For example, with continued global demand for U.S. goods and services, increases in net exports accounted for over half of U.S. economic growth in 2007 and 2008.

Export Promotion Is Based on Several Rationales

Several rationales exist for the use of government export promotion programs to support exporting firms and sectors.¹ In addition to macroeconomic considerations of job creation and economic growth, microeconomic considerations exist for government programs to address “market failures” – where conditions such as imperfect information and entry barriers prevent markets from generating the most efficient outcome. Rationales may also exist for export programs based on achieving broader trade policy objectives, such as helping U.S. exporters overcome foreign trade barriers that make it difficult for U.S. products to penetrate foreign markets. Examples of export promotion addressing market failures and achieving broader trade policy objectives include:

- Foreign market information: Some firms may not export because they lack information about export markets, but U.S. officials abroad may have access to commercially valuable information about foreign markets that the private sector may not otherwise be able to access.
- Advocacy: Government representation on behalf of a firm competing for a potential export sale may influence procurement decisions, particularly in helping establish a firm’s credibility in foreign markets.
- Export finance assistance: Government finance can fill gaps created when the private sector is reluctant to finance certain exports, particularly for small and medium sized enterprises (SMEs).

Notwithstanding these rationales, measuring the effectiveness of export promotion activities is inherently difficult. For example, quantifying the growth in exports is complicated by the fact that other factors, such as government policies and firm-specific conditions, also determine growth. Nevertheless, according to the World Bank, the number of national export promotion agencies worldwide has tripled over the past two decades.

¹GAO, *Export Promotion: Rationales for and Against Government Programs and Expenditures*, [GAO/T-GGD-95-169](#) (Washington, D.C., May 23, 1995).

U.S. Export Promotion Is Supported by a Wide Variety of Agencies and Activities

Export promotion efforts in the United States are guided by the National Export Strategy and are pursued by a wide variety of agencies and through a wide range of activities. According to the strategy, 20 export promotion agencies are part of the Trade Promotion Coordinating Committee (TPCC), of which 9 of the agencies have budgets for programs or activities related to export promotion, with Commerce, the Department of Agriculture (Agriculture), and the Department of State (State) actively engaged in export promotion overseas.² To support U.S. businesses in-country, as well as gather data and information about local markets, Agriculture has 101 offices in 81 countries and Commerce has 126 offices in more than 80 countries. State personnel provide in-country services at approximately 100 embassies overseas where either Commerce or Agriculture lacks a presence. In both 2007 and 2008, the budget for U.S. trade promotion activities was about \$1.3 billion. In 2009, TPCC agencies requested \$1.2 billion in funding, with Agriculture, Commerce and State accounting for 91 percent of the total trade promotion budget authority³.

The wide range of activities that are considered export promotion include:

- providing basic export counseling;
- assisting with collecting and providing data on foreign markets;
- advising firms on how to best market their products overseas;
- providing loans, insurance, and guarantee programs;
- advocating on behalf of domestic firms; and
- monitoring trade agreements.

²The other U.S. agencies with export promotion budget that serve on the TPCC include the Departments of the Treasury, the Export-Import Bank of the United States, the Overseas Private Investment Corporation, the Small Business Administration, the U.S. Trade and Development Agency, and the Office of the United States Trade Representative.

³Agriculture received about 46 percent of these funds for its activities. Agriculture has nine programs it considers trade promotion related and Commerce has three units within the International Trade Administration that support export promotion. State supports Commerce efforts overseas.

Observations Regarding U.S. and Foreign Export Promotion Efforts

While GAO has not recently performed an in-depth comparison of U.S. and foreign export promotion activities, the findings and recommendations in our past reviews of U.S. agencies are consistent with several expert studies looking at export promotion practices in other countries. Specifically, GAO has identified elements of U.S. export promotion activities that warrant attention: (1) coordination; (2) targeted services for small and medium enterprises and other priorities; (3) performance monitoring; and (4) partnerships and methodologies for setting user fees. The expert studies we reviewed echo the importance of each of these activities for foreign export promotion. (See app. I for a listing of these studies.) Although we do not endorse any specific changes to U.S. export promotion programs implied by the studies, we provide this information to assist in Congressional oversight of U.S. export promotion programs and for a policy discussion about U.S. export promotion activities. GAO has begun a new body of work in this area based on renewed congressional interest.

Coordination of U.S. Export Promotion Activities

U.S. export promotion activities are coordinated by the TPCC. To address a longstanding congressional concern over a lack of effective coordination, GAO has reviewed the TPCC several times since its inception. In 2006, we testified that the TPCC had made progress over time in improving coordination, including interagency training and joint outreach.⁴ However, in both 2006 and 2009, we found the TPCC continued to face challenges in other areas of its coordination responsibilities.⁵ For example, in March 2009, we testified that the National Export Strategy continues to lack an overall review of agencies' allocation of resources relative to government-wide export promotion priorities. Similarly, we testified in 2006 that, despite its mandate to propose a unified federal trade promotion budget, the TPCC continued to have little influence over agencies' allocation of resources for trade promotion.

Our observations about the importance of clearly coordinated responsibilities among export promotion agencies are consistent with findings in several expert studies that examined foreign export promotion practices. For example, the International Trade Center reported that most

⁴GAO, *Export Promotion: Trade Promotion Coordinating Committee's Role Remains Limited*, [GAO-06-660T](#) (Washington, D.C., April 26, 2006).

⁵GAO, *International Trade: Effective Export Programs Can Help in Achieving U.S. Economic Goals*, [GAO-09-480T](#) (Washington, D.C., March 17, 2009).

successful exporting countries have established a central or national export promotion agency that coordinates implementation of the national export strategy, leads in creation of a support network, and acts as a first stop for the business community. In a review of 104 countries, the World Bank study found that a single and strong export promotion agency is preferred to the sometimes observed proliferation of agencies within countries. Well-coordinated activities among a larger partnership of support agencies are emphasized in studies by the Australian Trade Authority (Austrade) and the Boston Consulting Group. Austrade, for example, stated that effectively coordinating export service providers is important for potential and new-to-export firms, since some – especially small and medium-sized enterprises – have encountered difficulties in identifying or accessing appropriate services for their needs. Examples of notable foreign coordination efforts that the reports cited include:

- Canada’s National Sector Teams and Regional Trade Networks that were created to enhance coordination and improve access to services for the business community; and
- The Philippine Export Act that gave an apex body, the Export Development Council, overall responsibility for formulating and coordinating the national export development effort. The council was chaired by the Secretary of the Department of Trade and Industry and had cabinet-level members from the eight ministries concerned with economic development.

Targeting Services for SMEs and Other Priorities

Providing services targeted to small businesses has been a high priority for U.S. export promotion activities. Commerce seeks to broaden and deepen the exporter base with the majority of exports supported by its Commercial Service deriving from SMEs while for the U.S. Export-Import Bank (Ex-Im), Congress requires that a certain percentage of financing be for small business. GAO has found limitations in both programs. In 2009, we recommended that Commerce take steps to improve its databases and procedures because they lacked reliable information about the size, location, and type of its customers. In 2006, we recommended, among other things, that Ex-Im more accurately determine the number of transactions that directly benefit small business and improve the system for estimating the value of direct small business support for those transactions where the exporter is not known at the time Ex-Im authorizes the transaction. As we testified in 2008, Ex-Im has taken several steps in

response to those recommendations.⁶ Beyond SMEs, U.S. export promotion priorities are more broadly outlined in the National Export Strategy. However, as we testified in 2006, the focus of the national export strategies continues to change from year to year with little evaluation of previous efforts' effectiveness. For example, the 2003 strategy prioritized on capacity building, Russia, and transportation security; the 2004 strategy highlighted China, free trade agreements, and coordination in crisis regions; and the 2005 strategy covered free trade agreements, China, and six "growth markets" (Japan, South Korea, India, Brazil, Russia, and the European Union). At the time of our 2006 testimony, some member agency officials commented on the ad hoc nature of the national export strategies.

Our observations about the importance of targeting services, for example, to SMEs and other assistance priorities are reflected in expert studies on foreign export promotion. For example, most of the studies we reviewed recognized that SMEs have unique needs and that services should be tailored to account for common financing and informational constraints faced by smaller firms. Several studies also emphasized the importance of prioritizing assistance to certain sectors or firms based on the exporting goals of each country. According to the Boston Consulting Group, fragmentation of efforts from having too many targets tends to undermine an agency's chance of success. As a result, it suggested screening for export ready firms and transitioning firms across different states of exporting, focusing on services for smaller firms that are "threshold" or "mature" exporters. Conversely, the World Bank emphasized prioritizing assistance to large firms that are not yet exporters, and both the World Bank and the Asia Pacific Economic Cooperation studies discussed a focus on non-traditional export sectors. To select priorities, Nathan Associates explained that sectors, markets, or firms should be selected on the basis of market research combined with stakeholder consultation.⁷

⁶Most notably, Ex-Im replaced its previous data systems with "Ex-Im Online," an interactive, web-based process that allows exporters, brokers, and financial institutions to transact with Ex-Im electronically. According to Ex-Im, this has resulted in more timely and accurate information on Ex-Im's financing. GAO, *Export Promotion: Export-Import Bank Has Met Target for Small Business Financing Share*, [GAO-08-419T](#) (Washington, D.C., January 17, 2008).

⁷As the one study that contradicts these findings, the International Trade Center's Executive Forum paper warns against selecting priority sectors or markets because it entails non-market forces choosing winners and losers. Rather than focusing on sectors and markets, this paper suggests that export promotion agencies concentrate on the provision of strategic services to any qualified client.

Examples of targeted or tailored foreign promotion efforts that the studies cited include:

- The United Kingdom’s Export Explorer and Passport to Export Success programs that were targeted to new exporters. Export Explorer, for instance, combined coaching at home with support from the overseas network, giving new exporters the experience of exporting to geographically close markets and enabling them to gain confidence.
- The Indian Ministry of Industry’s cluster-development program and Malaysian efforts to connect SMEs with other exporters. Malaysia’s Small and Medium Industries Development Corporation, for instance, linked SMEs into the supply chain of larger multinational corporations that have the systems and knowledge needed for SMEs to become globally competitive.

Performance Monitoring

While recognizing the challenge of measuring the effectiveness of export promotion activities, GAO has found in several reviews of U.S. programs that performance monitoring could be improved. For a number of years we have noted that TPCC agencies do not identify or measure agencies’ progress toward mutual goals as part of the National Export Strategy. More recently, in March 2009, we reported that better evaluation by Commerce of its Commercial Service fee-based programs and customers, including states, could improve program continuity, help managers target their resources more efficiently and effectively, assess costs and benefits, and help the Congress make more informed funding decisions. In 2008, we reported that Ex-Im had developed performance standards for its small business financing in most, although not all, of the areas specified by Congress, that some measures for monitoring progress against the standards lacked targets and timeframes, and that Ex-Im was just beginning to compile and use the small business information it was collecting to improve operations.⁸ We recommended that Ex-Im establish performance standards for functions not currently addressed, revise several current measures to include measurable targets and time frames, and take steps to establish a measure for financing for small businesses owned by socially and economically disadvantaged individuals and women.

⁸GAO, *Export-Import Bank: Performance Standards for Small Business Assistance Are in Place but Ex-Im Is in the Early Stages of Measuring their Effectiveness*, GAO-08-915 (Washington, D.C., July 17, 2008).

Using meaningful performance monitoring as a learning tool is also discussed in the expert studies on foreign export promotion. The International Trade Center’s Executive Forum noted that, although performance evaluation is inherently challenging, without widely accepted performance measures, export promotion agencies have difficulty forming and implementing export strategies. The center outlined measurements that focus on the impact of export promotion agency services rather than export quantities. Similarly, the Boston Consulting Group stated that evaluation is needed to justify and account for the use of public monies and to obtain feedback for the allocation of resources and the design of programs. To achieve these goals, export promotion agencies may use a collection of quantitative and qualitative measures combined with independent feedback from clients. Nathan Associates also emphasized the role that assessing client satisfaction plays in program design, but suggested that client satisfaction be assessed through in-depth interviews rather than surveys that may be biased. Examples of foreign efforts to improve performance monitoring that the studies cited include:

- Australia’s use of a Customer Relationship Management System in order to track export results, assess client satisfaction, and obtain lessons learned. Australia collected this information as part of its fee-based services system and each of its three trade-related outcomes –awareness raising, export services, and export finance assistance—was assigned a target against which results were measured.
- New Zealand’s performance evaluation system that emphasized client input by compiling monthly feedback gathered by account managers, verifying every six months by independent survey, and concentrating on achieving a high deliver-in-full-and-on-time rating for specific services.

Partnerships to Improve Export Promotion Efforts

Recognizing the value of partnerships, U.S. export promotion agencies have developed collaborative relationships with the private sector, cities, and states. For example, Commerce initiated its Corporate Partnership Program, leveraging the private sector’s sales and marketing expertise in 2004. Likewise, Agriculture has programs that work in partnership with the private sector including the Market Access Program and the Foreign Market Development Program. GAO has evaluated federal-state partnerships, but has not evaluated private sector partnerships. For example, we reported in 2009 that state offices often partner with Commerce on trade missions and other activities, and most states responding to a GAO survey reported that Commerce’s services were important to their export promotion capabilities. A third of the states also

said they provide grants or payments to defray firms' costs and to facilitate access to Commerce programs. More generally, in 2006, we testified that based on our long record of oversight, the TPCC could continue to make improvements in outreach efforts to the private sector and that sustained high-level administration involvement would be necessary for the TPCC to achieve its fundamental objectives.⁹ To ensure costs charged for export promotion services are appropriate, GAO has also recently done work related to cost recovery for some Commerce programs. In 2009, we reviewed Commerce's methodology for establishing fees for export promotion services.¹⁰ While Commerce collects about \$10 million annually through fees, we found that it lacked good information on the true costs of providing services. Similarly, Commerce lacked reliable information about how its fees (or lack thereof) affected their customers' access to the program, or how they compared to state or private sector fees. As a result, it was unclear whether the fees Commerce established reflect their policy objectives or whether they optimize the efficient and effective management of these programs. We recommended that Commerce improve its procedures for setting user fees and collect and process more reliable information about its customers.

More broadly, the importance of both public and private sector involvement – as well as appropriately set user fees—is another key observation discussed in the expert studies. Regarding the role of contributions from the private sector, several studies discussed the importance of including private sector methodologies and input to ensure firm needs do not outgrow the expertise of the export assistance offered. These studies also addressed the importance of independence, to guarantee continuity as governments change and the autonomy needed to operate by commercial principles. For example, the World Bank study found that export promotion agencies with a large share of the executive board in the hands of the private sector, but with a large share of public sector funding, are most effective. Studies by Nathan Associates and the International Trade Center also emphasized the importance of a predictable and long-term level of public sector funding, with fees charged

⁹See [GAO-06-660T](#).

¹⁰GAO, *Export Promotion: Commerce Needs Better Information to Evaluate Its Fee-Based Programs and Customers*, [GAO-09-144](#) (Washington, D.C., March 4, 2009).

for some services.¹¹ Specific examples of how foreign export agencies charge fees or incorporate public and private sector involvement that the reports cited include:

- The Danish Trade Council and Enterprise Ireland, whose executive boards were comprised mostly of successful business people representing key sectors in the economy;
- Costa Rica’s semi-private trade promotion agency that was run by a mostly private board of directors but was supported by a statutorily independent source of income from taxes in the free trade zones; and
- Australia’s system of providing free services to help “intenders” and “new exporters” build export readiness, select target markets, and obtain initial market information while customized services that helped companies understand and enter new export markets were billed on a full cost-recovery basis.

Concluding Remarks

Mr. Chairman, this is an opportune time for Congress to review the role that exports can play in the U.S. recovery, as well as the role of U.S. agencies’ export promotion programs. We have performed a number of studies for the Congress on the range of U.S. export promotion programs, and we stand ready to assist Congressional oversight of these important matters. We appreciate the opportunity to contribute to the Subcommittee’s first hearing on this subject and look forward to future opportunities to assist the Subcommittee on this and other issues related to your portfolio of international trade issues.

Chairman Wyden and Ranking Member Crapo, this concludes my remarks, and I would be happy to answer any questions you or other members of the Subcommittee may have.

¹¹ The International Trade Center’s Executive Forum study noted that a fee-for-service approach will result in companies that can pay the most getting the best service, which undermines the public policy considerations that led to the creation of the export promotion agency in the first place. One option is to introduce an annual membership fee, as opposed to charging fees for specific services.

Contact and Acknowledgements

For further information about this testimony, please contact me at (202) 512-4347 or by e-mail at YagerL@gao.gov. Adam Cowles (Assistant Director), Beth Bowditch, Karen Deans, Kendall Helm, Julie Hirshen, Richard Krashevski, and Yesook Merrill made contributions to this testimony.

Appendix I. Listing of Key Studies on Foreign Export Promotion Practices

- Asia-Pacific Economic Cooperation. *Alliance in Practice: Building the Core of Trade Promotion*. APEC Working Group on Trade Promotion, March 2007. [Examines export promotion in the People's Republic of China, Chinese Taipei, Indonesia, Malaysia, Thailand, Vietnam, and the Philippines.]
- Australian Trade Commission. *Knowing and Growing the Exporter Community*. Sydney, Australia, 2002. [Examines export promotion in Canada, France, Ireland, Spain, Sweden, the United Kingdom, and the United States.]
- The Boston Consulting Group. *Export Development and Promotion: Lessons from Four Benchmark Countries*. Study commissioned for New Zealand, May 2004. [Examines export promotion in Chile, Denmark, Malaysia, and the United Kingdom.]
- International Trade Center. *Redefining Export Promotion: The Need for a Strategic Response*. United Nations and World Trade Organization, 2002.
- International Trade Center Executive Forum. *Export Strategy and the Role of the National Trade Promotion Organization*. ITC Position Paper for the Consultative Cycle 2006 Innovations in Export Strategy, Mexico City, Mexico, April 2006.
- Lederman, Daniel, Marcelo Olarreaga, and Lucy Payton. *Export Promotion Agencies: What Works and What Doesn't*. World Bank Policy Research Working Paper No. 4044, November 2006. [Examines export promotion in 104 countries.]
- Nathan Associates, Inc. *Best Practices in Export Promotion*. Technical report submitted to USAID in El Salvador under Contract No. PCE-I-00-98-00016, April 2004. [Examines export promotion in Australia, Canada, Chile, Colombia, Costa Rica, and El Salvador.]

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