

GAO

Report to the Chairman and Ranking
Minority Member, Committee on Finance
U.S. Senate

December 2000

**TRADE
ADJUSTMENT
ASSISTANCE**

**Impact of Federal
Assistance to Firms Is
Unclear**



G A O

Accountability * Integrity * Reliability

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Abbreviations

EDA	Economic Development Administration
TAA	Trade Adjustment Assistance



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

December 15, 2000

The Honorable William V. Roth, Jr.
Chairman
The Honorable Daniel Patrick Moynihan
Ranking Minority Member
Committee on Finance
United States Senate

Congressional concerns about the impact of foreign trade on U.S. manufacturing have focused attention on federal programs designed to help domestic firms that have been adversely affected by imports. One such program, the Department of Commerce's Trade Adjustment Assistance program, aims to help U.S. firms adopt strategies to become more competitive in a global economy. Commerce's Economic Development Administration administers the program, which was established in 1962. The agency is responsible for certifying firms' eligibility to receive assistance and approving the certified firms' business plans for economic recovery. To become eligible to receive assistance, a firm must demonstrate that increases of imports have contributed importantly to decreases in sales or production and in its number of employees. Twelve regional Trade Adjustment Assistance Centers, which operate under cooperative agreements with the Economic Development Administration, help firms with the certification process, assess the viability of firms, and develop business recovery plans. The Centers also provide funding for and oversight of the work done by third-party consultants, who implement the projects detailed in the business recovery plans. Certified firms generally pay 25 percent of the cost of developing a recovery plan and no less than 50 percent of the total cost of the technical consulting services for projects that cost more than \$30,000. The Economic Development Administration's fiscal year 2000 Trade Adjustment Assistance appropriation is \$10.5 million.

You asked us to review the nature and extent of Trade Adjustment Assistance as well as the outcomes of this assistance. Specifically, we (1) identified how the funding was used and the number and type of firms participating in the program and (2) examined the impact of the program assistance received by firms, including the views of participating firms and Center directors about the quality and impact of program services.

To answer these objectives, we collected data on program operations from the Centers and the Economic Development Administration for the time period covered by the Centers' cooperative agreement years 1995-99.¹ To determine the impact of program services received by firms, we relied on data provided by the Economic Development Administration and Center directors and also conducted interviews of 72 firms that were certified by the Economic Development Administration to receive program assistance. These firms fell into three categories: (1) 18 firms that were certified in 1998 but later withdrew from the program; (2) 28 firms that were certified in 1998, had approved business recovery plans, and had one or more projects implemented; and (3) 26 firms that were nominated as "success stories" by their respective Trade Adjustment Assistance Center. Because our sample was small and not random, the results are not projectable and do not permit us to draw conclusions about all firms participating in the program. However, the interviews provide insight into the program and illustrate how firms used the Trade Adjustment Assistance program to help them meet their competitive challenges. We also interviewed Trade Adjustment Assistance program officials, including the 12 directors of the Centers, to obtain additional perspectives on the program. For a more complete discussion of our scope and methodology, see appendix I.

¹The annual time periods covered by the cooperative agreements vary among the Centers and do not necessarily correspond to the fiscal year.

Results in Brief

The 12 regional Trade Adjustment Assistance Centers spent an annual average of about \$9.8 million for cooperative agreement years 1995 through 1999. Although Centers' expenditures varied, most of these funds (61 percent) were used to fund operational and administrative costs, including the cost of helping firms become certified and developing their business recovery plans. The remainder—an annual average of about \$3.8 million, or approximately 39 percent of the total—was used to fund direct technical assistance to firms through the implementation of business recovery plans. For fiscal years 1995 through 1999, Commerce's Economic Development Administration certified, on average, 157 firms annually as eligible for trade adjustment assistance and approved business recovery plans for about 127 firms each year. The median sales for certified firms was \$3.2 million and the median number of employees was 45. The three industries most frequently represented among certified firms for cooperative agreement years 1995 through 1999 were industrial machinery and computers (14 percent), electronic equipment (13 percent), and apparel manufacturers (12 percent).² Examples of projects funded and implemented in conjunction with the business recovery plans included marketing, Web site development, standards certification, and production process improvement.

The impact of the program on firms is inconclusive because the Economic Development Administration does not formally monitor and track program outcomes of program recipients. Rather, the agency sets annual numerical goals for certifications and approved business recovery plans (outputs) for each of the Centers. As a result, the Economic Development Administration does not have the information necessary to systematically assess Center performance in helping firms adjust to import competition. Most (40) of the 54 firm managers we interviewed who used Trade Adjustment Assistance funds to implement projects reported that the assistance had a positive impact on their firms' gross annual sales, and most (31) reported that the assistance had had a positive impact on employment. However, some (7) managers pointed out that the Trade Adjustment Assistance was small relative to the firm's overall investments, and most (31) firm managers that had implemented projects told us that they had finished projects with their own funds. Eight of the directors of

²The data from one Center were not available for this analysis. Other categories included fabricated metals (10 percent), miscellaneous manufacturing (7 percent), and rubber (6 percent).

the regional Centers were generally satisfied with the Economic Development Administration's overall management, but all 12 directors identified limited program funds as a problem affecting the Centers' ability to deliver program services. In allocating the limited funds for project implementation, Centers use different mechanisms, such as "first-come, first-served" or funding at least one project in all recovery plans. This inconsistent approach to project funding raises questions about whether scarce resources are being used effectively. This is important because the 12 Centers currently have a combined backlog of about \$12 million in approved, but unfunded, projects. At the current rate of recovery plan funding at the Centers, it will take more than 3 years to fund these projects if no new companies are taken on as clients.

This report contains recommendations to the Secretary of the Department of Commerce to improve program management by (1) developing better measures of program outcomes and (2) applying these outcome measures to evaluate the effectiveness of the Centers' delivery of services to make the best use of the limited funding of this program. In written comments on a draft of this report, the Department of Commerce generally agreed with our findings and the recommendations.

Background

The Trade Adjustment Assistance (TAA) program for firms was established by the Trade Expansion Act of 1962³ to assist firms that have been adversely impacted by import competition; and the program was expanded under the Trade Act of 1974, as amended.⁴ Commerce administers the program through the Economic Development Administration (EDA). Although Congress originally authorized Commerce to assist firms by providing technical assistance, direct loans, and loan guarantees, the direct loan and loan guarantee provisions were eliminated in 1986.⁵ The program lapsed in June 1999, but Congress reauthorized it in November 1999 through September 30, 2001.⁶ EDA receives a separate appropriation for TAA, which it uses to fund 12 regional Trade Adjustment Assistance

³Public Law 87-794, 19 U.S.C. 2341 to 2355.

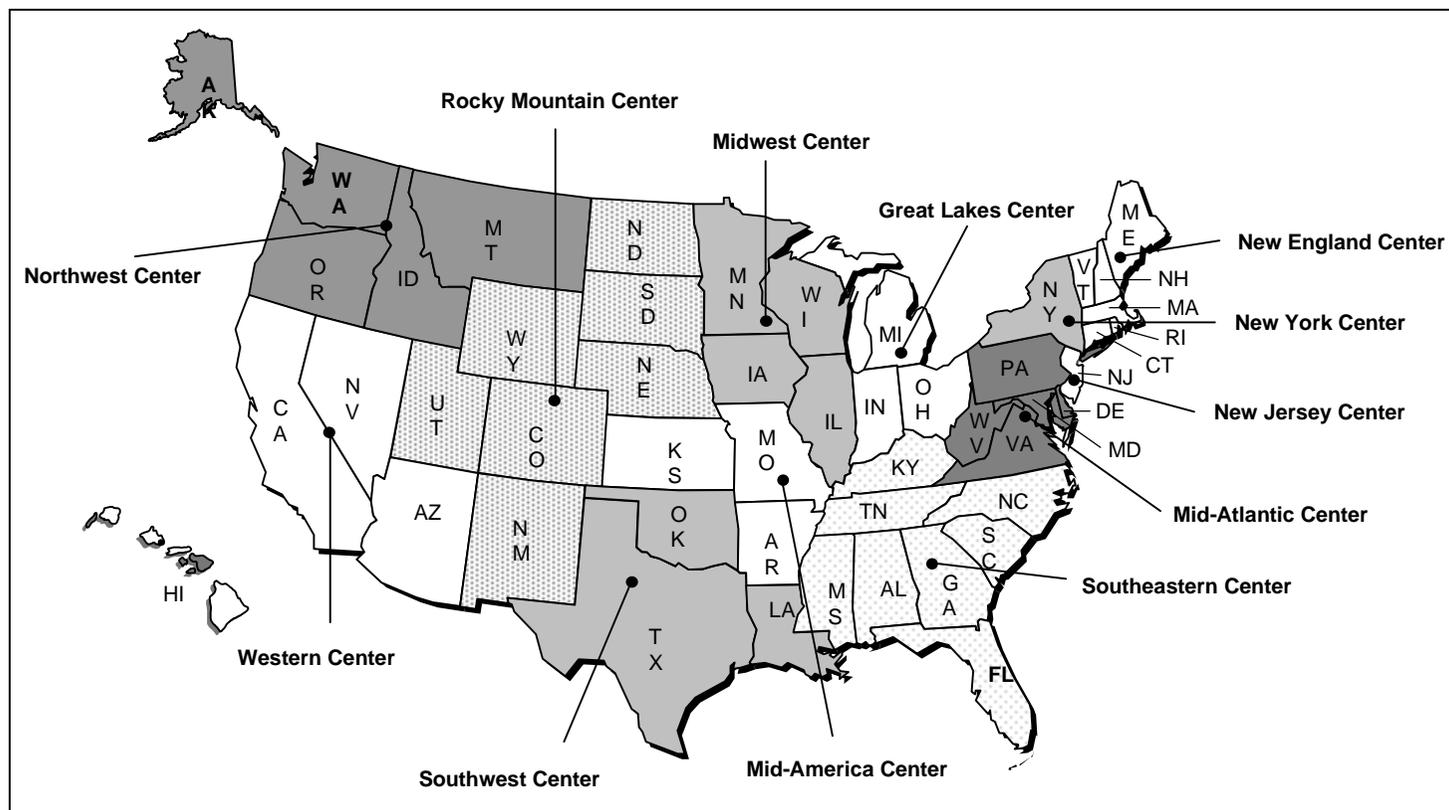
⁴Public Law 93-618.

⁵19 U.S.C. 2344 (d).

⁶Consolidated Appropriations Act of Fiscal Year 2000, Public Law 106-113, H.R. 3421, which was enacted into law by reference in H.R. 3194.

Centers, under renewable cooperative agreements. As shown in figure 1, the Centers cover geographical areas of different sizes. Funding for individual Centers varied from \$660,000 to \$1 million for cooperative agreement year 2000. Each Center funds technical assistance to firms within its region that have received EDA certification of eligibility and whose business recovery plans have been approved by EDA.

Figure 1: TAA Center Locations and Regional Coverage



Source: GAO derived from Department of Commerce information.

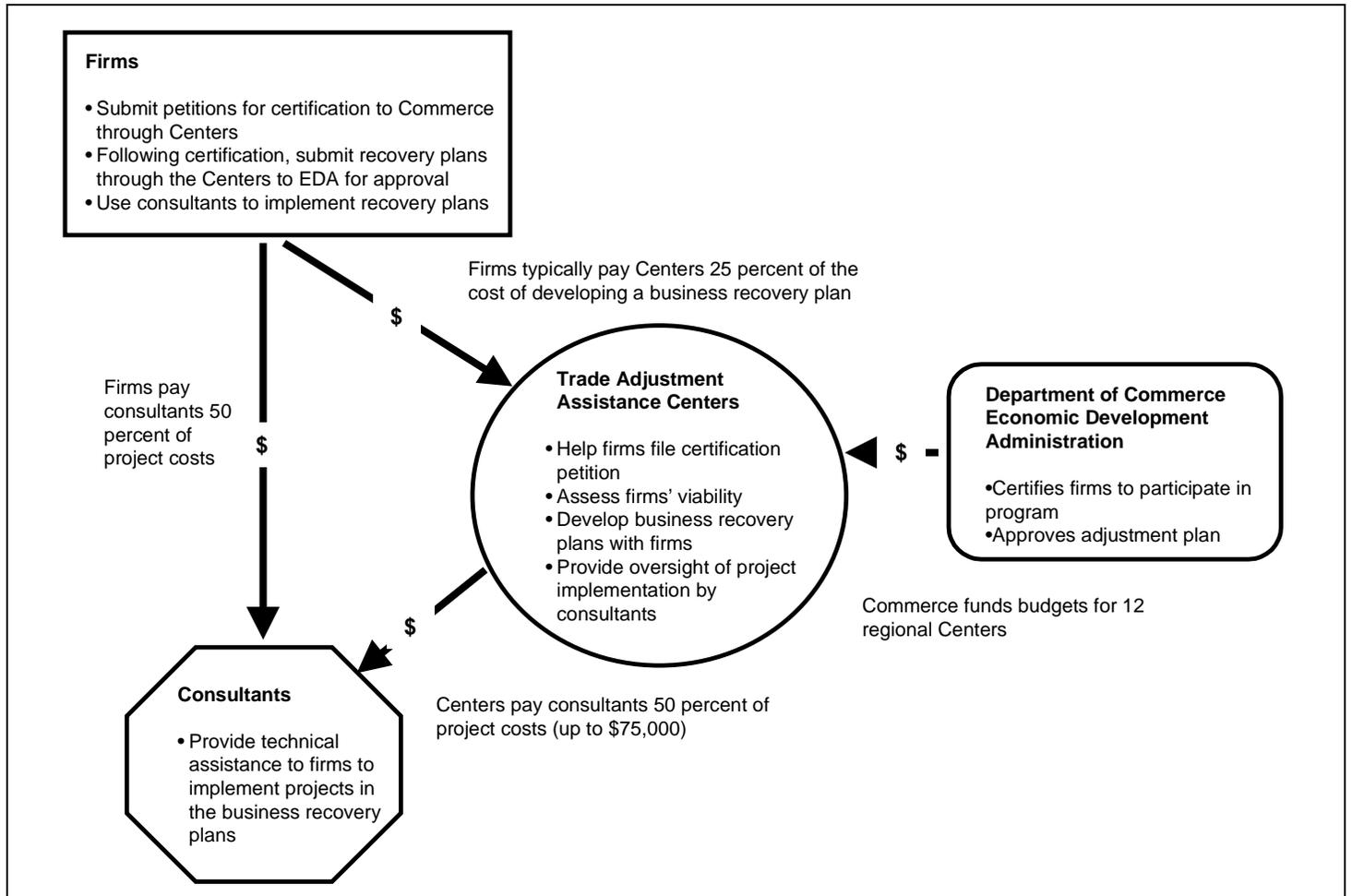
A firm that seeks TAA benefits must petition EDA for certification of its eligibility. To be found eligible, a firm must demonstrate (1) that a significant number or proportion of the firm's workers have become totally or partially separated from their employment, or are threatened to become totally or partially separated; (2) that sales or production overall have decreased, or that sales or production of a product that represents at least 25 percent of its total production has decreased during the preceding

12-month period; and (3) that increases in imports of articles like or directly competitive with the firm's product contributed importantly to the employment separations (or threat thereof) and the declines in sales or production. Trade Adjustment Assistance Centers' staffs work with firms to develop the documentation. EDA requires firms to support claims of declining sales and employment and increases of imports competing with the products they produce. EDA is required to determine the firm's eligibility within 60 days of receiving a petition.

Once certified, a firm has 2 years during which it is to develop a business recovery plan in consultation with the regional Center. This recovery plan should detail the firm's fundamental business operations, assess its competitive problems, and propose specific projects to be implemented by one or more competitively selected third-party consultants. After EDA approves the plan, the Center funds specific projects within the plan, subject to the Center's available funds. Projects are limited to technical assistance such as marketing strategies, technical standards certification, product and process development, and computer system upgrades. TAA funds may not be used for capital expenditures such as physical plant improvement or machinery upgrades. Firms are permitted to receive up to \$75,000 in TAA funding but are required to match federal funds dollar-for-dollar to implement the technical assistance projects.⁷ (See fig. 2 for a summary of the TAA process.)

⁷For projects budgeted to cost less than \$30,000, Centers may fund up to 75 percent of the total cost.

Figure 2: Flowchart of the TAA Process



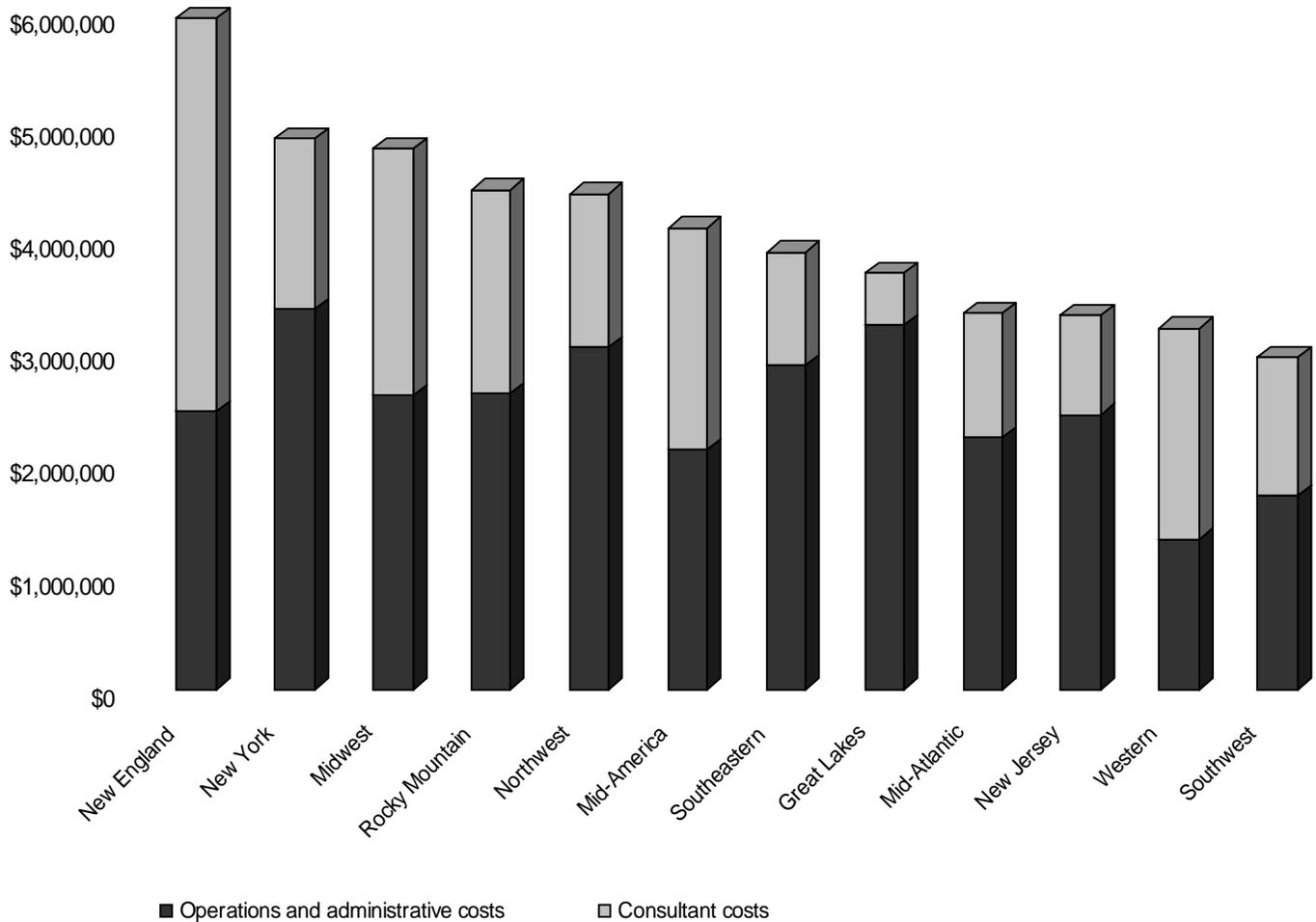
Source: GAO derived from Department of Commerce information.

Less Than Half of Center Expenditures Were Used to Fund Project Implementation by Consultants

Expenditures by the 12 regional Centers during cooperative agreement years 1995-99 totaled about \$49 million, or an annual average of \$9.8 million. Between 1995 and 1999, the 12 regional Centers used about 39 percent (about \$3.8 million annually), on average, of TAA funding to fund technical assistance from third-party consultants to eligible firms with approved business recovery plans. During the same period, Centers spent about 61 percent (about \$6 million annually), on average, to fund operational and administrative costs associated with helping firms with the initial certification process, developing business recovery plans for certified firms, and funding the day-to-day operations of the Centers.⁸ However, the proportion of funds spent to fund consultants varied across Centers. As shown in figure 3, the New England and Western Centers spent over half of their program funds (about 59 percent and 58 percent, respectively) on technical assistance provided by consultants to eligible firms, while the Great Lakes Center spent about 12 percent. EDA officials told us that the Great Lakes Center is currently on probation due to its relatively few certifications and business recovery plans submitted to EDA in the last 2 years.

⁸According to Center directors' estimates, about 64 percent of their staffs' time is spent on working with firms on developing certification documentation and business recovery plans.

Figure 3: Trade Adjustment Assistance Centers' Total Expenditures, Cooperative Agreement Years 1995-99



Note: Operations and administrative costs include staff time spent assisting firms with the certification process and preparing adjustment plans, in addition to the cost of funding day-to-day operations.

Source: GAO derived from TAA Centers' data.

Between fiscal years 1995 and 1999, EDA certified a total of 784 firms (about 157 firms annually, or about 13 each year for each of the 12 Centers) as eligible to receive trade adjustment assistance. EDA approved the business recovery plans for 633 certified firms (about 127 firms annually, or an average of 11 firms per year for each Center).⁹ Firms participating in the program represent a broad array of industries that produce manufactured products. Such firms include manufacturers of auto parts, agricultural equipment, electronics, jewelry, circuit boards, textiles, log homes, and many others. Based on the data provided by the Centers for firms certified between cooperative agreement years 1995 and 1999, we found that about 14 percent of firms produce industrial machinery and computers, about 13 percent manufacture electronic equipment, and 12 percent produce apparel. For the 5-year period, firms had annual sales (at the time of certification) that ranged from a low of \$1,563 to more than \$219 million, with median sales of \$3.2 million. The number of workers employed at the time of certification ranged from 1 to more than 3,000, but the median number of employees was 45. See appendix II for a statistical profile of firms that EDA certified as eligible to receive TAA benefits in cooperative agreement years 1995-99.

Certified firms receiving trade adjustment assistance developed business recovery plans that included a broad range of projects, including marketing, Web site development, standards certification, improvements to production processes, inventory control, and others. These projects, which were customized to meet each firm's specific needs, were implemented by third-party private sector consultants selected jointly by the firm and the Center, and some firms used more than one consultant in the course of implementing its recovery plan. For more detail on types of projects undertaken at one Center, see appendix II.

Impact of TAA Program for Firms Unclear

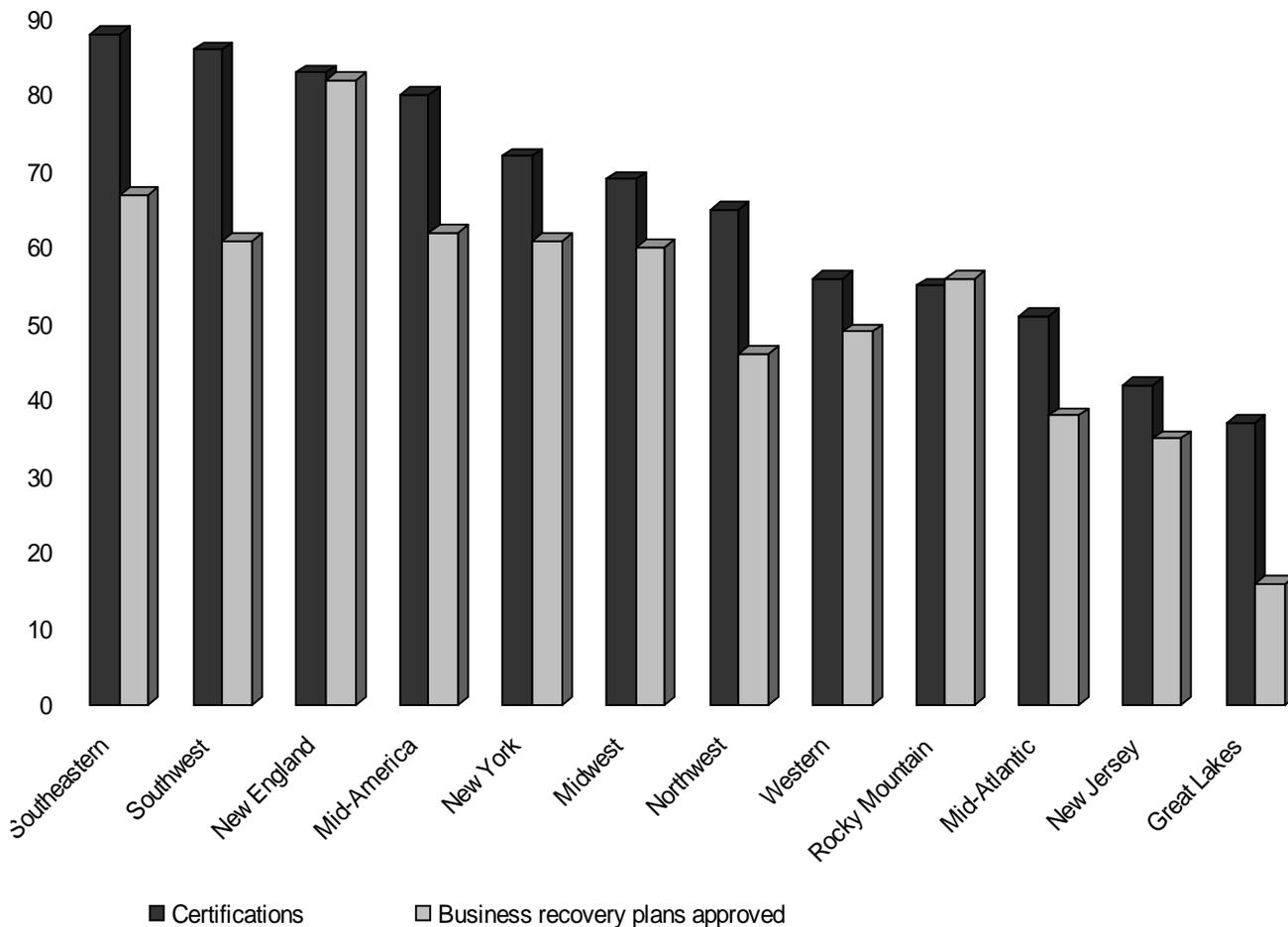
The impact of the TAA program for firms is unclear, based on our review of EDA's data, our interviews of program participants who received TAA benefits, and our interviews of the 12 regional Center directors.

⁹According to EDA data, EDA rejected only 2 of the total number of business recovery plans submitted for EDA approval between fiscal years 1995 and 1999.

EDA Does Little to Monitor Program Outcomes

Although EDA funds the Trade Adjustment Assistance Centers, it has not formally monitored and tracked program results. EDA establishes goals for each Center regarding the number of certifications and business recovery plans to be completed annually for EDA review (outputs). In addition, EDA program officials told us that they conducted site visits in the past but discontinued them in fiscal year 2000 because of budget constraints. However, EDA provides no oversight of project implementation and does not track the outcomes of firms receiving TAA funding. Additionally, we found that the Centers do not always collect the same information on clients and funded projects. Furthermore, not all Centers were able to provide us with information on the type of projects included in each client's recovery plan, the status of each project, and changes in sales and employment. This lack of standardization and of a systematic collection of basic data hinders EDA's ability to assess program effectiveness. As a result, EDA is unable to use any performance measures other than numbers of approved certifications and recovery plans to evaluate the performance of the Centers and of the program overall. According to the data EDA does collect, certifications by Center for fiscal year 1999, the last fiscal year for which data are available ranged between 6 and 24, while the number of approved recovery plans ranged between 2 and 22. As shown in figure 4, the number of certifications and business recovery plans approved varied across Centers for the fiscal year 1995-99 time period that we reviewed.

Figure 4: Certifications and Adjustment Plans Approved, by Trade Adjustment Assistance Center, Fiscal Years 1995-99



Source: GAO derived from Department of Commerce data.

EDA officials have recognized some of the shortcomings in the available performance data, and, building on the requirements of the Government Performance and Results Act of 1993 (P.L. 103-62), have begun to collect client satisfaction data from participating firms. As of October 1999, these data are being collected through a one-question survey provided to program participants by the Centers. According to a Commerce TAA program official, the results of these surveys are not yet available. Although client satisfaction is one important dimension of program effectiveness, other measures of economic recovery, such as changes in sales,

employment, and earnings, could potentially provide more meaningful indications of program impact. One Center Director told us that in October 1999, he began to collect more extensive data from client firms. This Center has designed and implemented an electronic questionnaire to measure client satisfaction with the Center project manager and the private sector consultant. It also asks firms about changes in sales, employment and capital expenditures as a result of the project that was implemented by the consultant. According to the Director, the results are not yet available, but he expects to use them to report to EDA and his state government on the economic impact overall of projects that his Center funds. Although the Director has presented this questionnaire to other directors, the questionnaire is not used by all Centers because some Centers lack the necessary technology to implement the survey.

Although Views of Private Sector Firms Are Positive, Overall Program Impact Is Uncertain

We were unable to conclusively assess the impact of the TAA program because EDA does not track changes in the business condition of assisted firms. To obtain insight into program operations and effectiveness, we interviewed 72 firms certified by EDA. (See app. III for the questionnaire.) Table 1 shows the distribution of the types of companies we interviewed by Center and category of the firms' participation in the program.

Table 1: Distribution of Firms Interviewed, by Center and Category of TAA Participation

TAA Center	Firms designated as “success stories” by Centers	Firms that were certified and had approved business recovery plans	Firms that were certified, but withdrew from the program	Total
Great Lakes	2	2	1	5
Mid-America	2	2	2	6
Mid-Atlantic	2	4	0	6
Midwest	2	2	2	6
New England	3	1	1	5
New Jersey	3	3	1	7
New York	2	2	2	6
Northwest	2	3	2	7
Rocky Mountain	2	3	2	7
Southeast	2	2	1	5
Southwest	2	2	2	6
Western	2	2	2	6
Total	26	28	18	72

Of the 54 firm managers we interviewed that had implemented one or more projects, 53 indicated they were satisfied with the services they had received from the Centers, and 51 said they were satisfied with the third-party consultants. Most of these managers also indicated that TAA had had a positive impact on increases in sales and employment (40 and 31, respectively). For example, one firm manager said that TAA funding helped the firm to redesign a key product. According to the manager, the TAA-funded project led to increases in gross annual sales and employment levels. However, we also found that some (5) of the 18 firms we interviewed that dropped out of the program after becoming certified also reported increases in sales and employment.

Despite these positive views of the program, firm managers also identified other factors that contributed to the successful recovery of their firms. Seven managers noted that the amount of TAA funding was small relative to the firm’s overall investments in its business recovery. For example, one manager explained that the firm’s business recovery project cost \$5.5 million, of which \$50,000 came from TAA funds. According to the Director of the Center serving this firm, the TAA funding facilitated the financing of the overall project but was not the only factor in its success.

Some firm managers also said that other factors not related to TAA, such as a strong domestic economy or physical plant investments, had also contributed to increased sales and employment.

Thirty-one firm managers said that they had finished approved projects with their own funds, and four firm managers specifically noted that the lack of funds from their respective Center impaired the timely implementation of projects. For example, one firm manager said that TAA program funding for the firm's projects ran out several times during implementation and that the projects had to be delayed until the following year. The manager further noted that delayed funding for scheduled projects creates problems for businesses that must implement changes quickly in order to remain competitive in today's economy.

The 18 firm managers we interviewed that withdrew from the TAA program cited a variety of reasons for dropping out of the program, including the lack of funds to cover the firm's portion of the business recovery plan, or a decision that the firm did not want the type of technical assistance funded by the TAA program. Another firm withdrew after the manager responsible for overseeing the TAA process left the firm.

Center Directors Identify Issues Affecting Program Implementation

A majority of the directors of the 12 Centers we interviewed said the Trade Adjustment Assistance program provides an excellent model for assisting firms but expressed concerns about a number of program issues. Although 8 were generally satisfied with EDA's program management, all 12 directors reported frustration with current funding levels. According to the directors, they cannot fund all projects in approved business recovery plans due to the limited program funding. Six of the directors told us that they ration scarce funds across all approved business recovery plans, trying to fund at least one project of every approved plan. However, the other six directors indicated that they use predominantly a "first come", "first-served" approach to fund projects.

The 12 directors reported a combined backlog of \$12 million for projects in business recovery plans approved by EDA that the Centers are currently unable to fund. Using the current rate of Centers' funding of projects in approved recovery plans (\$3.8 million annually over the 5-year time period we reviewed), it will take more than 3 years to fund all projects slated for implementation to help firms respond to the business pressures associated with import competition.

Conclusion

We identified two overall issues in the TAA program that suggest a need for reexamining how the program operates. First, Commerce's Economic Development Administration has not developed appropriate outcome measures to conclusively demonstrate the value of the program in achieving its goal of assisting firms adversely affected by imports. This, combined with the lack of standardized data collected by the Centers, makes it difficult to judge the outcomes of the program. Second, there is a current backlog of about \$12 million in approved but unfunded projects, and Centers use different approaches to allocate limited program resources. These variations among the Centers in how they allocate limited funds, combined with the lack of outcome measures, raise questions about whether available funds are being used in the most effective manner.

Recommendations for Executive Action

To improve the effectiveness of the Trade Adjustment Assistance program in helping firms that are adversely affected by imports, we recommend that the Secretary of Commerce

- establish more effective measures of desired program outcomes and
- apply these outcome measures as criteria to evaluate the effectiveness of the Centers in making the best use of the limited program funding to help trade injured firms adjust to import competition.

Agency Comments and Our Evaluation

We received written comments on a draft of this report from the Department of Commerce (see app. IV). Overall, the Department of Commerce agreed with our findings and recommendations and said that the Department is committed to implementing the most effective program in order to help U.S. trade-injured firms adjust to import competition. The Department of Commerce also provided technical comments, which we incorporated in the report as appropriate.

The Department of Commerce cited the finding in our report that 39 percent of the program funds go to provide technical assistance to trade injured firms from third party consultants while the remaining 61 percent of the funds are used for operational and administrative costs, including the costs of certifying firms and developing business recovery plans. Commerce stated that the Economic Development Administration is confident the majority of administrative and operational costs actually support Center staff technical assistance to the trade injured firms and are not overhead costs as implied by sections of the report. We agree, as noted

above and in our draft report, that the Centers use a portion of the administrative and operational costs to provide technical assistance to firms and believe that the Center's role in assisting firms is clearly stated in our report. We acknowledge this fact in our report by characterizing these expenditures as administrative and operational—not overhead. However, we maintain that it is essential to note that less than half of the program's expenditures are used to fund the implementation of business recovery projects for firms adversely affected by import competition. Because the Centers' budget data only identifies expenditures for technical assistance provided by consultants, we reported the available data and cannot comment on Commerce's view that the majority of the Centers' operational and administrative expenditures are used to provide technical assistance to firms.

The Department of Commerce also stated that it was disappointed that the positive findings from our interviews with firms cannot be used to support conclusions about the overall program. Commerce cited a November 1998 Urban Institute study commissioned by the agency that found statistically significant improvements in sales, employment, and survivability for firms receiving Trade Adjustment Assistance when compared to firms certified as eligible but which did not receive implementation assistance. Commerce also pointed to an "effectiveness report" prepared by the Centers annually that has consistently shown substantial increases in sales and employment for firms assisted by the Centers in comparison to the declines the firms reported prior to entering the program.

Neither the Urban Institute study¹⁰ nor the Economic Development Administration's "effectiveness report" demonstrates the impact of the trade adjustment assistance program. The Urban Institute study has some methodological shortcomings that served to undermine the validity of the study's conclusions, including selection bias—an inherent bias in favor of the TAA-assisted firms. In order to receive Center services, eligible firms have to invest their own time and resources as part of the assistance. In addition, at least some Center directors further screen firms to select those most likely to succeed. As a result, firms qualifying for Center assistance

¹⁰The Urban Institute study, prepared in November 1998, compares firms that actually received Center assistance with those that did not on three outcome measures: firm termination rate, firms' total employment, and sales growth. Both groups of firms were certified as eligible to receive Center assistance. The study observed significant differences between the two groups of firms on all three outcome measures. These observed differences are attributed to the positive effect of the Trade Adjustment Assistance program.

are likely to be stronger, healthier, and more committed than the firms not participating in the program. While this may be an appropriate strategy for delivering scarce program funds, it complicates efforts to independently evaluate results as treatment and comparison groups must be selected in a manner that rules out any inherent bias in favor of either group. The design of the Urban Institute study did not do this. In addition, the study did not measure and test for other explanatory variables, such as the availability of other federal or state assistance, firms' own investment in capital improvements or technology, or changes in human resource strategies that may account for or influence positive outcomes. Consequently, the study cannot attribute any observed differences between the groups compared—those receiving TAA assistance and those that did not receive assistance—exclusively to the TAA program. Regarding the “effectiveness report” generated by the Centers, we note that it reports changes in sales and employment for all clients for each Center on an aggregate basis without reference to differences in firm size, number of employees, or phase of recovery for each client. As such, its usefulness in assessing effectiveness of trade adjustment assistance is limited.

The Department of Commerce stated in its letter that the Economic Development Administration has undertaken several efforts to monitor the TAA program and its impacts. Commerce points to a 1998 Urban Institute evaluation study, regular visits to Centers by EDA staff in fiscal year 1999 to monitor Center progress, and the use of a satisfaction query of assisted firms to demonstrate its monitoring efforts. We agree that Commerce has completed some monitoring efforts in the past and have included this information in our report. However, we still believe that the Economic Development Administration needs to introduce more systematic and focused monitoring to better judge program outcomes. In our view, effective monitoring should include establishing appropriate measures of success for each firm assisted, regular tracking of program outcomes by the Department of Commerce, and using that information to evaluate the success of each Center.

We are sending copies of the report to interested congressional committees and to the Honorable Norman Y. Mineta, the Secretary of Commerce. We will also make copies available to others on request.

If you or your staff have any questions about this report, please contact me on (202) 512-4128. Other GAO contacts and staff acknowledgments are listed in appendix V.



Susan S. Westin
Managing Director
International Affairs and Trade

Objectives, Scope, and Methodology

The Chairman of the Senate Finance Committee, William V. Roth, Jr., and the Ranking Member, Daniel Patrick Moynihan, requested that we review the Trade Adjustment Assistance (TAA) program for firms. We (1) identified how the funding was used and the number and type of firms participating in the program and (2) examined the impact of the program assistance received by firms, including the views of participating firms and Center directors about the quality and impact of program services

To determine how TAA funding was used and the number and type of firms participating in the TAA for firms program, we collected data from the Department of Commerce's Economic Development Administration on certifications and approved adjustment plans from fiscal years 1995 to 1999. We also contacted the 12 regional Trade Adjustment Assistance Centers, which provided data on their program expenditures and information about client firms, including gross annual sales, number of employees, and industry information made under their cooperative agreements years 1995-99.¹ To identify the nature of the assistance provided, we asked Centers to indicate projects contained in each client firm's approved business recovery plans. Some Centers provided detailed information on actual projects, while others told us that they could not pull together this information for all clients in time for our analysis. Because the data on projects are limited, we present (in app. II) project information from a single Center to illustrate the variety of projects and the combinations of projects undertaken by firms to implement their business recovery plans.

To assess the impact of the program, we conducted interviews with EDA officials responsible for the program and reviewed EDA program files. We conducted on-site visits at three Centers in Atlanta, Georgia; San Antonio, Texas; and Los Angeles, California. We chose these sites because they represented different regions, and we were able to combine these visits with other TAA-related audit work.

To report on the views of certified firms and the Center directors on program operations and the quality and impact of program services, we conducted telephone interviews with 72 certified firms, and interviewed the 12 Center directors. GAO selected about two-thirds of the firms that we interviewed, and the Centers chose the remaining third. For the

¹ The annual time periods covered by the cooperative agreements vary among the Centers and do not necessarily correspond to the fiscal year.

GAO-selected firms, we identified companies that had received TAA assistance from each of the 12 Centers. We selected companies certified in calendar year 1998 to ensure that the companies had sufficient time to become certified as eligible by EDA, decide whether to proceed with assistance, develop a recovery plan, and have some experience with implementing the recovery plan. We attempted to interview at least two companies from each Center that had developed an approved recovery plan and two companies that withdrew from the program. Based on data provided by the Centers, we attempted to identify four of each type of company to attempt to contact. When a Center's number of clients that fit our specifications exceeded four, we chose companies randomly for our interviews. However, not all Centers had four firms in each category. One Center did not have any candidates for our "certified but withdrew" category. In those cases, we interviewed more firms in the "certified with recovery plan" category. For a few Centers, our interview strategy produced more than four interviews when more firms returned our calls than expected. For the Center-selected cases, we asked each Center to nominate companies that they considered "success stories," and we interviewed at least two companies in this category for each Center. Because we did not select the firms that we interviewed randomly, the results do not permit us to draw conclusions about all firms participating in the program. However, the interviews allow us to illustrate how firms used the Trade Adjustment Assistance program to help them meet their competitive challenges.

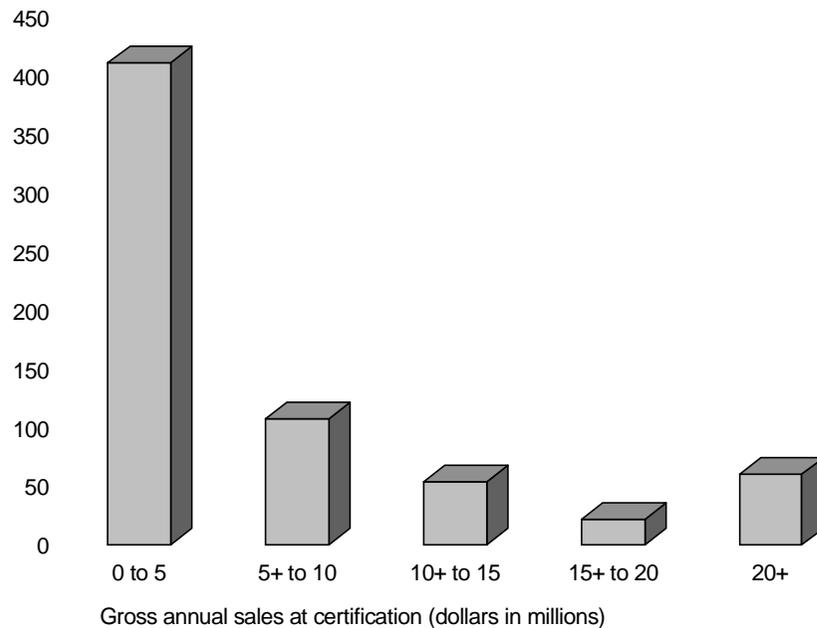
We conducted our work from February through October 2000 according to generally accepted government auditing standards.

Statistical Profile of Firms Certified to Receive Trade Adjustment Assistance

We present in this appendix a series of figures and tables that provide statistical details of firms that were certified between cooperative agreement years 1995 and 1999, including a profile of firms by sales, employment levels, and Standard Industrial Classification code. Similar data are also provided for the firms that participated in our interviews. We also present information about projects of certified firms at one Trade Adjustment Assistance Center.

Figure 5 shows the distribution of certified firms by gross annual sales at the time the firm was certified to participate in the TAA program for calendar years 1995-99. Figure 6 shows similar data for the firms that participated in our interviews. The firms we interviewed had median sales of about \$3.5 million, and ranged from \$3,229 to \$90.9 million. The total population of certified firms had median sales of \$3.2 million, and the sales ranged from \$1,563 to \$219.2 million.

Figure 5: Distribution of Certified Firms, by Gross Annual Sales, Calendar Years 1995-99

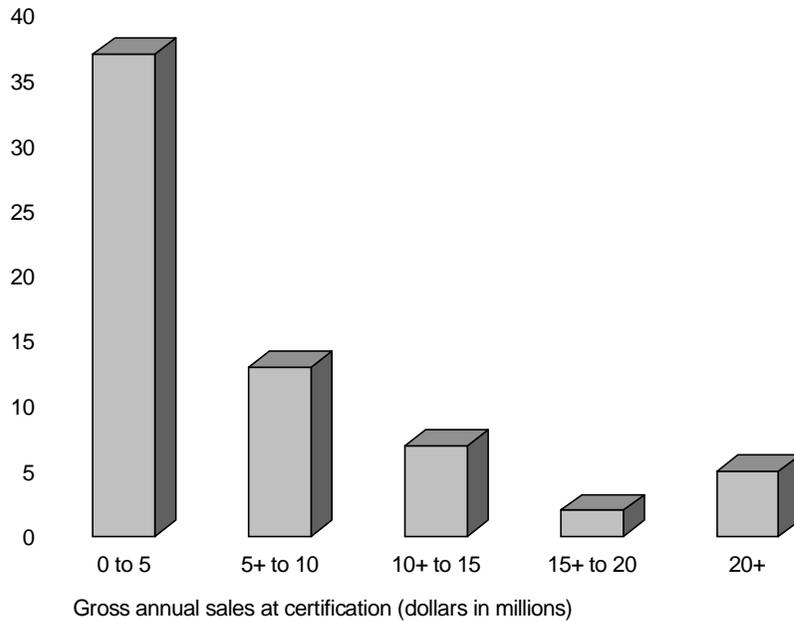


Note: Sales data were provided by the TAA Centers for 655 firms.

Source: GAO derived from TAA Centers' data.

Appendix II
Statistical Profile of Firms Certified to
Receive Trade Adjustment Assistance

Figure 6: Distribution of Certified Firms GAO Interviewed, by Gross Annual Sales

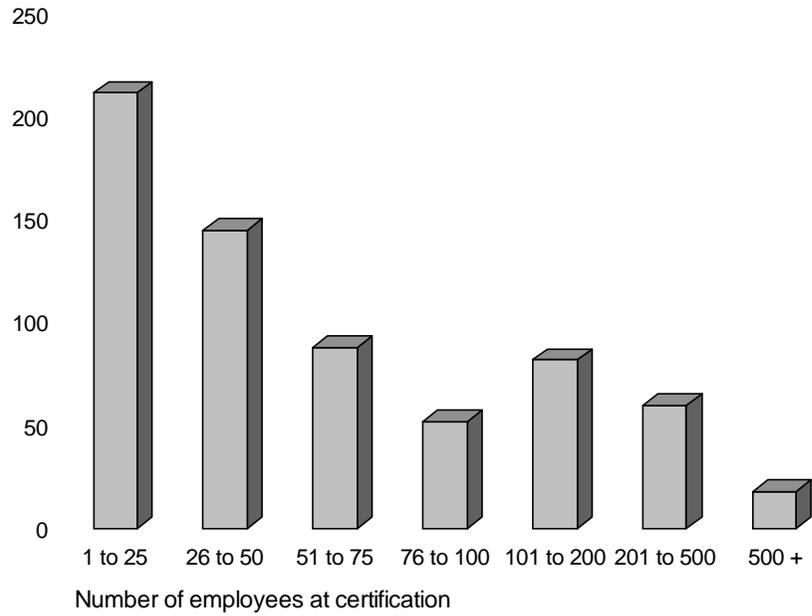


Note: Data were provided by the TAA Centers for 64 of the 72 firms we interviewed.
Source: GAO derived from TAA Centers' data.

Figure 7 shows the distribution of certified firms by number of employees at the time the firm was certified to participate in the TAA program for calendar years 1995-99. Figure 8 shows similar data for the firms that participated in our interviews. The median number of employees was 44 for the firms we interviewed, and the number of employees for interviewed firms ranged between 4 and 648. The median number of employees for total population of firms was 45, and the number of employees ranged between 1 and 3,089.

Appendix II
Statistical Profile of Firms Certified to
Receive Trade Adjustment Assistance

Figure 7: Distribution of Certified Firms, by Number of Employees, Calendar Years 1995-99

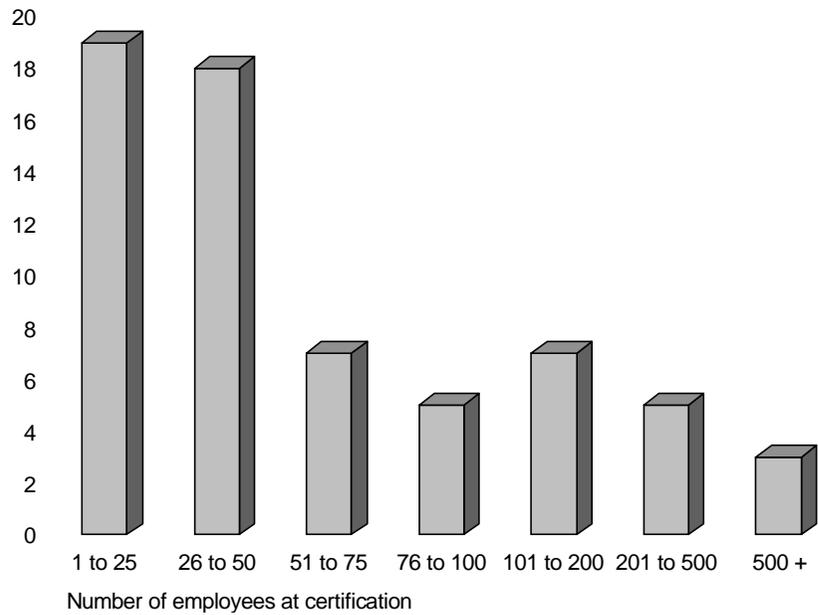


Note: Employment data were provided by the TAA Centers for 657 firms.

Source: GAO derived from TAA Centers' data.

Appendix II
Statistical Profile of Firms Certified to
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Figure 8: Distribution of Certified Firms GAO Interviewed, by Number of Employees



Note: Data were provided by the TAA Centers for 64 of the 72 firms we interviewed.

Source: GAO derived from TAA Centers' data.

Table 2 shows the distribution of Standard Industrial Classification codes for firms certified for calendar years 1995-99. Table 3 presents similar data for the firms included in our interviews.

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Statistical Profile of Firms Certified to
Receive Trade Adjustment Assistance

Table 2: Standard Industrial Classification Codes for Certified Firms, Calendar Years 1995-99

Industry grouping	Standard Industrial Classification codes (2-digit)	Number of certified firms	Percent
Agricultural production	01	10	1.4
Agricultural services	07	1	0.1
Food manufacturing	20	20	2.8
Textile mill	22	32	4.5
Apparel	23	82	11.5
Lumber	24	28	3.9
Furniture	25	23	3.2
Paper	26	10	1.4
Printing/publishing	27	5	0.7
Chemicals	28	12	1.7
Petroleum refining	29	1	0.1
Rubber	30	41	5.8
Leather	31	23	3.2
Stone/clay	32	16	2.3
Primary materials	33	17	2.4
Fabricated metals	34	68	9.6
Industrial machinery/computer	35	100	14.1
Electronic equipment	36	89	12.5
Transportation equipment	37	31	4.4
Instruments	38	39	5.5
Misc. manufacturing	39	50	7.0
Electrical services	49	1	0.1
Wholesale-durables	50	1	0.1
Wholesale-nondurables	51	4	0.6
Apparel stores	56	1	0.1
Eating and drinking	58	1	0.1
Business services	73	3	0.4
Public administration	95	2	0.3
Total		711	100^a

^a Total does not add to 100 percent due to rounding.

Source: GAO derived from TAA Centers' data.

Appendix II
Statistical Profile of Firms Certified to
Receive Trade Adjustment Assistance

Table 3: Standard Industrial Classification Codes for Certified Firms GAO Interviewed

Industry grouping	Standard Industrial Classification codes (2-digit)	Number of certified firms interviewed	Percent
Agricultural production	01	1	1.5
Agricultural services	07	0	0
Food manufacturing	20	0	0
Textile mill	22	1	1.5
Apparel	23	3	4.6
Lumber	24	4	6.1
Furniture	25	1	1.5
Paper	26	0	0
Printing/publishing	27	1	1.5
Chemicals	28	1	1.5
Petroleum refining	29	0	0
Rubber	30	1	1.5
Leather	31	3	4.6
Stone/clay	32	3	4.6
Primary metals	33	1	1.5
Fabricated metals	34	5	7.6
Industrial machinery/computer	35	11	16.7
Electronic equipment	36	7	10.6
Transportation equipment	37	5	7.6
Instruments	38	10	15.2
Misc. manufacturing	39	7	10.6
Electrical services	49	0	0
Wholesale-durables	50	0	0
Wholesale-nondurables	51	0	0
Apparel stores	56	0	0
Eating and drinking	58	0	0
Business services	73	0	0
Public administration	95	1	1.5
Total		66	100^a

^a Total does not add to 100 percent due to rounding.

Note: TAA Centers provided Standard Industrial Classification code data for 66 of the 72 firms we interviewed

**Appendix II
Statistical Profile of Firms Certified to
Receive Trade Adjustment Assistance**

Source: GAO derived from TAA Centers' data.

Table 4 lists projects funded by one Center— the Midwest TAA Center— for a sample of 10 firms. The example illustrates the breadth of projects funded and shows the combination of projects included in each of these firms' business recovery plans. Some of these projects have been funded and completed. Others are still in the implementation phase, while other projects are awaiting funding.

Table 4: Example of TAA Projects at Midwest TAA Center, October 1995-May 2000

Client	Project 1	Project 2	Project 3	Project 4	Project 5
Firm #1	Technical certification consulting	New equipment selection	Market research	Technical certification registration	Information system upgrade
Firm #2	Promotional materials	Sales representative development	Productivity improvement		
Firm #3	Strategic marketing	Promotional materials	Process consulting		
Firm #4	Manufacturing technology study	Information system upgrade	Marketing materials	Implement price quoting software	
Firm #5	Market development	Promotional materials	Export market study		
Firm #6	Strategic marketing	Information system upgrade	Product design project	Software upgrade	
Firm #7	Web site and online catalog development	Manufacturing representative search	Strategic planning		
Firm #8	Facility layout evaluation	Software upgrade	Strategic planning	Strategic planning	
Firm #9	Paint process improvement	Dealer development	Information system upgrade		
Firm #10	Information system upgrade	Market research	Distribution consulting	Manufacturing technology	

Source: GAO derived from Midwest TAA Center information.

GAO Questionnaire for Certified Firms

Note: Frequency of responses by category for closed-end questions are shown in brackets next to each category.

1. How did you learn of the Trade Adjustment Assistance program for firms?

(ASK Q.2 IF THE TAA CENTER INITIATED CONTACT WITH THE FIRM, OTHERWISE GO TO Q.3)

2. How satisfied or dissatisfied were you with the TAA Center's outreach activities?

[8]	Very satisfied
[14]	Generally satisfied
[1]	As satisfied as dissatisfied
[0]	Generally dissatisfied
[0]	Very dissatisfied
[2]	Do not recall
[1]	Do not know

CERTIFICATION PHASE

3. How satisfied or dissatisfied were you with the overall certification process?

[23]	Very satisfied
[34]	Generally satisfied
[8]	As satisfied as dissatisfied
[3]	Generally dissatisfied
[0]	Very dissatisfied
[1]	Do not recall
[1]	Do not know

(IF GENERALLY OR VERY DISSATISFIED, ASK Q.3a, OTHERWISE GO TO Q.4)

3a. Why were you dissatisfied with the certification process?

4. What is the status of your Adjustment Plan (business recovery plan)?

[52]	Submitted, approved <i>(GO TO Q.6)</i>
[2]	Submitted, approval pending
[18]	Not submitted <i>(CONTINUE TO Q.5)</i>
[0]	Other

5. Do you plan to submit an Adjustment Plan (business recovery plan)?

[0]	Yes <i>(GO TO Q.26)</i>
[16]	No <i>(CONTINUE Q.5a)</i>

**Appendix III
GAO Questionnaire for Certified Firms**

[1] Have not decided

5a. If not, what are your reasons?

5b. If not, under what circumstances would you submit an Adjustment Plan (business recovery plan)?

(GO TO Q.20 IF FIRM DOES NOT PLAN TO SUBMIT PLAN OR HAS WITHDRAWN FROM THE PROGRAM)

IMPLEMENTATION PHASE

6. Briefly describe the types of projects your firm has implemented to date.

7. How involved were you in the selection of the project consultant(s)? ["Consultant" refers to any individual(s) that provided technical assistance or were otherwise contracted by the TAA Center to implement a project].

[50] Very involved
[1] Somewhat involved
[1] Not very involved
[0] Had no role in the selection

8. Based on your overall experiences with the project consultant(s), how satisfied or dissatisfied are you with the following aspects of their services?

#	TYPE OF SERVICE	VERY SATISFIED	GENERALLY SATISFIED	AS SATISFIED AS DISSATISFIED	GENERALLY DISSATISFIED	VERY DISSATISFIED	NO BASIS / DO NOT KNOW
1	Knowledge of subject	[38]	[15]	[0]	[0]	[0]	[1]
2	Able to communicate their knowledge effectively	[35]	[17]	[1]	[0]	[0]	[1]
3	Understands your firm's particular needs	[34]	[16]	[3]	[0]	[0]	[1]
4	Timeliness (appointments, follow-up, completion)	[32]	[17]	[2]	[1]	[1]	[1]
5	Provides all deliverables outlined in project proposal	[40]	[10]	[2]	[1]	[0]	[1]
6	Usefulness of final recommendations	[34]	[19]	[0]	[0]	[0]	[1]
7	Overall satisfaction with consultant(s)	[36]	[15]	[1]	[1]	[0]	[1]

**Appendix III
GAO Questionnaire for Certified Firms**

8	Overall satisfaction with the project(s)	[38]	[12]	[0]	[0]	[0]	[1]
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8a. Why were you very satisfied / very dissatisfied with (1-8)?

9. Did your project(s) cost less than the amount originally approved by the Department of Commerce?

- [8] Yes (CONTINUE to Q.9a)
- [41] No (GO TO Q.10)
- [2] Do not know / other (GO TO Q.10)

9a. If so, why was that?

10. Regarding your firm's Adjustment Plan (business recovery plan), have you decided to fund some of the tasks yourself without federal financial assistance?

- [31] Yes (CONTINUE to Q.10a)
- [20] No (GO TO Q.12)
- [2] Do not know / other

10a. If so, how much investment have you made so far?

10b. If so, why did your firm decide to make the investment?

11. Would you have been able to implement the project(s) without trade adjustment financial assistance?

- [14] Yes
- [38] No
- [2] Don't know / other

Comments:

12. How satisfied or dissatisfied are you with the following aspects of TAA Center's services?

#	TYPE OF SERVICE	VERY SATISFIED	GENERALLY SATISFIED	AS SATISFIED AS DIS-SATISFIED	GENERALLY DIS-SATISFIED	VERY DIS-SATISFIED	NO BASIS
1	Timely and responsive assistance	[47]	[6]	[1]	[0]	[0]	[0]
2	Center staff assistance and expertise	[45]	[9]	[0]	[0]	[0]	[0]
3	Making an appropriate diagnosis of your firm's situation	[43]	[9]	[1]	[1]	[0]	[0]
4	Recommended projects are doable and practical	[41]	[11]	[1]	[0]	[0]	[0]

**Appendix III
GAO Questionnaire for Certified Firms**

	(i.e., w/in your financial means, resource capacity, etc)						
5	Fair and reasonable fees, if charged	[34]	[15]	[1]	[0]	[1]	[3]
6	Overall satisfaction with the Center	[46]	[7]	[1]	[0]	[0]	[0]

12a. Why were you very satisfied / very dissatisfied with (1-6)?

OUTCOMES/GENERAL SATISFACTION

Note: Frequency of responses for Q.13 and Q.14 include the responses from firms that were certified and had approved business recovery plans. See Q.20-Q.22 for frequency of responses from firms that were certified but withdrew from the program.

13. How have gross annual sales changed at your firm since (business recovery plan approval date)?

- [43] Increased
- [4] Decreased
- [7] No change

13a. In your view, what impact did trade adjustment assistance have on the changes in gross annual sales?

- [15] Significant impact
- [25] Some impact
- [11] No impact
- [3] Don't know / No basis to judge

Comments:

14. How has the number of employees at your firm changed since (business recovery plan approval date)?

- [34] Increased
- [11] Decreased
- [9] No change

14a. In your view, what direct impact did trade adjustment assistance have on the changes in the number of employees?

- [10] Significant impact
- [21] Some impact
- [20] No impact
- [3] Don't know / No basis to judge

Appendix III
GAO Questionnaire for Certified Firms

Comments:

15. How have overall wage levels at your firm changed since (*business recovery plan approval date*)? By "overall wage level," we mean the pay structure you use to attract new hires and/or retain current workers. If wage levels have changed, please describe the circumstances and factors contributing to the changes.

15a. In your view, what direct impact did trade adjustment assistance have on the changes in wage levels?

[2]	Significant impact
[17]	Some impact
[12]	No impact
[2]	Don't know / No basis to judge

Comments:

16. Has trade adjustment assistance impacted your firm in other ways? (For example: profitability, downtime, new processes, new products, annual savings in labor, inventory, materials, energy, increased capital spending, or other things)

17. In terms of the money you paid for the services you received, how valuable was the assistance?

[28]	Worth much more than you paid
[16]	Worth somewhat more
[5]	About equal to the amount you paid
[0]	Worth somewhat less
[0]	Worth much less
[2]	Do not know / other

18. How could this program be improved?

19. Would you recommend this program to another firm experiencing difficulties due to import competition?

[62]	Yes
[1]	No
[8]	Do not know / other

END

Appendix III
GAO Questionnaire for Certified Firms

ADDITIONAL / SKIP QUESTIONS FOR FIRMS THAT HAVE WITHDRAWN FROM THE PROGRAM

Note: Frequency of responses for Q.25 is included in the responses shown for Q.19.

20. How have gross annual sales changed at your firm since (certification date)?

- [5] Increased
- [6] Decreased
- [7] No change

Comments:

21. How has the number of employees at your firm changed since (certification date)?

- [5] Increased
- [7] Decreased
- [6] No change

Comments:

22. How have overall wage levels changed at your firm since (certification date)? If wage levels have changed, please describe the circumstances and factors contributing to the changes.

23. In your view, have there been any other significant changes at your firm since (certification date)? (For example: profitability, new processes, products, inventory, capital spending, etc.)

24. How could the trade adjustment assistance program be improved?

25. Would you recommend this program to another firm experiencing difficulties due to import competition?

- Yes
- No
- Do not know / other

END

Comments From the Department of Commerce

Note: GAO comments supplementing those in the report text appear at the end of this appendix.



THE SECRETARY OF COMMERCE
Washington, D.C. 20230

NOV 27 2000

Ms. Susan S. Westin
Managing Director
International Affairs and Trade
U.S. General Accounting Office
Washington, D.C. 20548

Dear Ms. Westin:

Thank you for the opportunity to comment on the draft report, *TRADE ADJUSTMENT ASSISTANCE: Impact of Federal Assistance to Firms Is Unclear*. The Department of Commerce and the Economic Development Administration (EDA), which manages the Trade Adjustment Assistance (TAA) program, are committed to implementing the most effective program in order to help United States trade-injured firms adjust to import competition.

Overall, we concur with the strongly positive findings of the report, which contains a great deal of evidence demonstrating the effectiveness of the TAA program. As part of this study, 54 firms that received implementation assistance under the program were interviewed. Forty-three of the firms were "very satisfied" and nine firms were "generally satisfied" with the TAAC's diagnosis of the firm's situation. Forty of the 54 firms reported the program had a positive impact on increases in sales. Thirty-one of the 54 firms reported the program had a positive impact on increases in employment. Forty-four of the firms thought the assistance under the program was worth more than they paid. Even more impressive, when the investigators asked those 54 managers, as well as 18 managers of firms that were certified but dropped out of the program, if they would recommend the program to firms experiencing difficulties due to import competition, an overwhelming majority (62) said they would.

While we recognize the positive findings of the report, we feel it inadequately reflected appreciation for the importance of the technical assistance provided directly by TAAC staff to the client firms. The single most important component of the TAA program is the joint TAAC/firm development of the adjustment plan (business plan in the draft report), which lays out the strategy the firm is to follow to regain the ability to compete in the global marketplace. It must be remembered that the firms included in this review were certified as trade injured, so they had demonstrated loss of sales and employment during a period of unprecedented economic growth in the United States. The positive results reported above after the firms received assistance from TAAC staff with the development of a successful business strategy demonstrates the importance of that strategy to the adjustment process.

Given the overall positive findings of the report, we were also disappointed that the report then goes on to state these positive findings cannot be considered indicative of the overall program because the 54 firms were not randomly selected by the reviewers. We agree it would have been preferable that the review be conducted with a methodology that would support findings relative

See comment 1.

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to the overall program, and we are confident such a review would have produced similar results. For example, in its 1998 evaluation of the TAA program, the Urban Institute found statistically significant improvements in sales, employment, and survivability for firms assisted under the TAA program when compared to firms certified as eligible, but which did not receive implementation assistance. Also, the "effectiveness report," a chart the TAACs prepare annually to summarize sales and employment changes for TAA-assisted firms, has consistently shown substantial increases in sales and employment for firms assisted by the TAACs in comparison to the declines the firms reported prior to entering the program. These overall increases in sales and employment are even more impressive when the most appropriate adjustment strategies for some trade-injured firms may be to further reduce the scope of their operations.

The report states, in several places, that only 39 percent of the program funds go to provide technical assistance to trade-injured firms from third party consultants while the remaining 61 percent of the funds are used for operational and administrative costs, including certification and business recovery plan assistance. EDA is confident the majority of the operational and administrative costs actually support TAAC staff technical assistance to the trade-injured firms. Besides the certification and business recovery plan assistance already noted, the administrative and operational costs also help pay for preparing, soliciting, and monitoring competitive bids with the private consultants that provide the implementation technical assistance. The great majority of the TAA program funds are used for direct technical assistance to trade injured firms, not overhead costs as implied by sections of the report.

See comment 2.

The report implies that the TAA program's impact may not be as significant as it first appears because for some firms the program's share of implementation assistance was small relative to that of the firm. Given the realities of the TAA program budget and the importance of developing an effective business strategy, this is another indicator of the success of the program because it leverages significant firm investment in their own recovery. The report also notes that some TAACs provide funds for technical assistance implementation through private consultants to firms on a first-come, first-served approach, while others attempt to fund at least one project in each firm's recovery plan. The report asserts these different approaches raise questions as to whether the implementation funds are being used most effectively since the combined backlog of approved, but unfunded, technical assistance is about \$12 million. This broad statement, however, is difficult to assess, since the report provides no discussion or examination of this issue.

See comment 3.

EDA notes that it has undertaken efforts to monitor the TAA program and its impacts. As previously mentioned, EDA commissioned the Urban Institute in 1997 to evaluate the TAA program. This is a significant example of EDA's commitment to monitoring the TAA program and one that is consistent with GAO's recommendation that Federal agencies routinely commission outside evaluations to judge the effectiveness of their programs. EDA staff have also made regular visits to the TAACs to monitor their progress and operations. In FY 1999, for example, EDA staff made monitoring visits to nine TAACs. An extremely tight administrative

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budget prevented EDA from continuing that pace in FY 2000, but EDA is committed to resuming these visits when its administrative budget improves. At the beginning of FY 1999 EDA instructed all TAACs to ask each assisted firm, as it completes the implementation of its adjustment plan, to rate its satisfaction with the TAA assistance on a 1 to 10 scale (10 best). EDA currently uses these ratings as a performance measure for the TAA program.

Finally, I would like to mention that EDA, the International Trade Administration (ITA), and the Department of Labor (DOL) have also undertaken an initiative to refer workers and communities identified in antidumping and countervailing duty petitions for immediate counseling about trade adjustment benefits and programs. We are in the process of drafting a brochure explaining the respective programs of each agency. We will also establish a link among the DOL, EDA, and ITA Web sites so that users can access all relevant information in one search. This will also solidify the mechanism for sharing information among the various agencies. We are also considering bringing the International Trade Commission, the Department of the Treasury, and the Small Business Administration into this effort so that the outreach is even more comprehensive.

The Department of Commerce welcomes the opportunity to expand its dialogue, particularly with the Congress and GAO, in fully achieving the congressional objectives of the TAA program in today's global economy. EDA also welcomes the opportunity to further its partnerships with Congress and GAO, as well as the Office of the Inspector General and other Commerce agencies in developing improved ways and means for implementing the TAA program, in establishing greater capabilities to more effectively measure program outcomes, and in using those outcome measures to evaluate the Trade Adjustment Assistance Centers' achievements.

Sincerely yours,



Norman Y. Mineta

The following are GAO's comments on the Department of Commerce's letter dated November 27, 2000.

GAO Comments

1. As we stated in our report, we conducted interviews with a small number of TAA participants to gain a better understanding of the program and to learn more about the firms' perspectives on TAA program operations. The number of interviews that we conducted with client firms receiving assistance was small (72 firms), and the selection of those firms interviewed was confined to firms certified as eligible in 1998 and those nominated by the Centers (with no constraint on the certification date), and not random. Thus, their responses can not be treated as representative of the views of all TAA participants.
2. Our report relates what TAA participants told us about factors other than TAA assistance that they said contributed to the overall success of the firms. We believe that, for these firms, factors other than TAA assistance also contributed to their ultimate success. Our report does not draw any conclusion about the TAA program's success overall.
3. We highlighted this issue because Centers use inconsistent approaches in their efforts to allocate the limited program funds. We think this raises questions about whether program resources are being used effectively across all Centers.

GAO Contacts and Staff Acknowledgments

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Acknowledgments

In addition to those listed above, Carlos Evora, Matthew Helm, Phil Herr, Christian Hougen, Kathleen Joyce, and Tim Wedding made key contributions to this report.

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