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FINANCIAL DERIVATIVE USAGE IN THE U.S. PUBLIC SECTOR

Anand Krishnamoorthy
TROY UNIVERSITY, USA

ABSTRACT

The purpose of this paper is to extend the literature on financial derivatives to the U.S. Public Sector. The usage of financial derivatives by multinational corporations has been addressed in the finance literature, but there is scant evidence on such usage in the public sector. The authors argue that although the public sector does not actively engage in risk management techniques, it is just as important an issue in the public sector as it is in the private sector. Given the scope of U.S. government operations worldwide the federal government has much to gain from adoption of risk management techniques that will lessen the budgetary impact of currency rate fluctuations. This paper discusses some of those issues and the usage of financial derivatives by two major U.S. public sector departments that have extensive foreign currency exposure.

Keywords: Department of Defense, Department of State, Public Sector, Exchange Rate Exposure

JEL Classification: H1, H3, H5

Introduction

Currency exchange rates are a major source of uncertainty for multinationals and also in some degree to companies that do not do business outside the United States. Since an appreciation of the U.S. dollar makes foreign imports relatively inexpensive compared to U.S. goods, fluctuations in the value of the dollar can impact a company even if it does not do business outside the home country. The concept of exchange rate exposure in the private sector has been addressed in the academic literature. This paper extends that stream of research by focusing on the U.S. public sector.

Exchange rates are typically four times as volatile as interest rates and ten times as volatile as inflation. Hence, to hedge or not to hedge is an extremely critical multinational decision area. Prior to discussing derivative usage in the public sector, a brief summary of the issues as it applies to the private sector is presented. This approach is utilized in order to demonstrate that the issues faced by the public sector are not far removed from the issues pertaining to corporations.

Multinational corporations (MNCs) are exposed to exchange rate fluctuations by the nature of their business. MNCs that have outstanding obligations denominated in other currencies are subject to gains or losses due to exchange rate movements before the obligation is satisfied. For conglomerate firms, such gains and losses can potentially be measured in USD billions. Hence many MNCs attempt to shield themselves from exchange rate exposure through the effective use of derivatives such as a forward contract. Such contracts often times mitigate the effects of unfavorable exchange-rate movements by locking in a predetermined rate. These contracts are usually executed through a financial intermediary.

Furthermore, many MNCs attempt to use “natural or geographic hedges” to shield themselves from unfavorable exchange rate movements. In doing so, companies diversify themselves across many countries and currencies so that exchange rate movements that affect their operations and subsequently their profits may have some canceling effects.

The issues discussed above have been addressed in the international finance literature extensively. On the other hand, only a small handful of studies have addressed the implications of financial derivatives to the public sector. This is primarily due to the fact that there is less publicly available information on the public sector and one needs internal contacts within the federal government in order to conduct such a study.

This study utilizes internal government data and contacts to discuss the usage of financial derivatives, or lack thereof, in two major public sector departments that have extensive exposure to foreign currencies. Those two departments are the U.S. Department of State and the U.S. Department of Defense. The study demonstrates qualitatively that the use of financial derivatives is just as critical for the public sector as it is for multinational firms.

The remainder of this paper is organized as follows. The next two sections discuss the exchange-rate exposure and policies to mitigate it, respectively in the U.S. Department of State. The subsequent two sections provide similar coverage of information for the U.S. Department of Defense. This is then followed by a section that provides a comparison of the two departments that is the subject of this manuscript. The final section provides some concluding remarks. This section will address some of the study's limitations as well as implications for future research projects on related pedagogical topical areas. Following the conclusions section, a detailed list of all references utilized in this manuscript is provided. Finally, an appendix detailing State Department operations is provided. Unfortunately, the author was unable to obtain, and subsequently provide, similar information on the Defense Department.

Exchange Rate Exposure Faced by the Department of State

The Department of State is the foreign ministry of the United States. According to the State Department web pages, the U.S. Government maintains diplomatic relations with about 180 countries with more than 250 posts throughout the world. The context of this section is the various embassies and consulates located in host countries throughout the world. Embassies, consulates and other diplomatic missions are manned by Foreign Service and career Civil Service employees and perform a variety of functions (Retrieved http://www.state.gov/r/pa/ei/rls/dos/436.htm) and noted below.

"They speak with one voice to others on U.S. policy (and ensuring mission staff do likewise) while providing to the President and Secretary of State expert guidance and frank counsel. They direct and coordinate all executive branch offices and personnel (except for those under the command of a U.S. area military commander, under another chief of mission, or on the staff of an international organization). They cooperate with the U.S. legislative and judicial branches so that U.S. foreign policy goals are advanced, security is maintained, and executive, legislative, and judicial responsibilities are carried out. They review communications to/from mission elements. They take direct responsibility for the security of the mission (including security from terrorism) and protect all U.S. government personnel on official duty (other than those personnel under the command of a U.S. area military commander) and their dependents. They carefully use mission resources through regular reviews of programs, personnel, and funding levels. They reshape the mission to serve American interests and values and to ensure that all executive branch agencies attached to the mission do likewise. Finally, they serve Americans with professional excellence, the highest standards of ethical conduct, and diplomatic discretion."

Embassies and consulates are analogous to small communities with infrastructure support that requires expenditures within local economies. In addition to the land and buildings housing the diplomatic mission, the department is also responsible for providing housing for its U.S. based employees. Furthermore, high-ranking diplomatic officials, such as ambassadors, are entitled to domestic help such as chauffeurs and maids at their respective locations. In addition, embassies and consulates rely on local residents for cultural and language services and such infrastructure needs as facility security. Although some salaries and other related payments may occur in U.S. dollars, a significant cash expenditure does need to take place in the local currency thereby making the State Department vulnerable to foreign currency volatility and in doing so creating exchange-rate exposure for the department.

Travel is another major source of exchange rate exposure for the State Department. Often times, officials have to travel locally and this is typically on local modes of transport such as the host country's national airline. Payment for all local travel needs to be made in the local currency. Furthermore, State Department officials typically relocate every 3-4 years. A significant portion of relocation expenses also takes place in the local currency.

Current State Department Policy on Exposure

This paper is based on an analysis of internal data that prescribed methods of dealing with currency volatility. The author obtained access to State Department internal data by invoking the Freedom of Information Act (FOIA). The appendix, at the end of the manuscript, provides some insight on State Department operations utilizing information gleaned from invoking FOIA. As a general rule, the department uses a revolving fund from which losses, owing to exchange-rate fluctuations, are covered; the fund is periodically replenished by gains due to favorable currency movements. Details are discussed in the succeeding paragraphs of this section.

At the beginning of each fiscal year (October 1st), financial plan allocations are adjusted for prior year exchange rate fluctuations and the current spot rates for each post. Exchange rate changes during the year are calculated for each post with an allowance made for hyperinflation. Financial plans may be revised based on a quarterly financial review. Exchange rate gains are held in a central fund for decision on disposition. Losses are generally covered by withdrawing from this centrally managed fund; however, they are sometimes accommodated by reprioritization of existing financial plan allocations.

Decisions are made on the use of exchange rate gains and the source of funds for exchange rate losses within the context of quarterly financial plan reviews and including consideration of all funding demands. The quarterly financial plan reviews reprioritize financial plan allocations by considering funding availability, including exchange rate gains or losses against the approved level of operations. Approved level of operations for the purposes of this policy is considered to be the levels of activities for the department envisioned in the authorization and appropriation acts. Decisions regarding allocation of gains to cover losses or the reprioritization of financial plans requires clearance from the Office of Management and Budget (OMB). The OMB is expected to provide clearance in a timely manner consistent with current practice.

The preceding two sections has addressed the exchange rate exposure, and steps to mitigate it, in the U.S. State Department. The manuscript will now turn its attention to the other major department which is the subject of this article: The U.S. Department of Defense.

Exchange Rate Exposure Faced by the Department of Defense

This section demonstrates that the nature of the exchange rate exposure faced by the Department of defense (DOD) is similar to that faced by multinational corporations with foreign subsidiaries. The DOD projects forces to every part of the world. To accomplish force projections the DOD operates within the framework of nine unified commands. Each unified command has operational responsibility for a particular part of the world. The United States Pacific Command (PACOM) is an example of a unified command. It is headed by a four star general and has responsibility for an area covering 43 countries and 10 U.S territories (http://cis-server.mit.edu). To meet its mission the PACOM employs about 300,000 military personnel, of which about 100,000 are forward deployed (http://cis-server.mit.edu). For example, United States Forces Korea (USFK) is a major component of the PACOM. USFK is committed to defending South Korea from an attack launched by their northern neighbor. In the absence of U.S. presence on the Korean peninsula, such an attack is quite likely given the fact that North Korea has the world's fifth largest army.

The maintenance of U.S. military personnel abroad requires the consent of the foreign government. The consent given by the foreign government is based on two primary considerations: security and economics. In addition to protecting U.S. interests overseas, the DOD is also committed to protecting friendly nations from enemy attack. Often times, foreign governments welcome multinational corporations into their country since MNCs provide employment and may enhance the overall infrastructure and economy of the host nation. These same economic principles also apply to the DOD. U.S. military installations overseas provide employment for host country nationals and generate income for the government. This income comes in the form of rent payments, utility payments and the like.

Generally, any transaction executed by a given installation, which involves remitting or receiving funds from host country officials is in the local currency. Installations pay rent to the host country government for using the land on which the bases were constructed. Furthermore, all U.S. military installations overseas have a significant number of positions that need to be filled by host country nationals. This is one of the conditions upon which the installation is allowed to continue operations. In addition to rent payments and salaries paid to local employees, U.S. installations overseas also face exposure related to the infrastructure of the base such as repairs and roadwork. Finally, local travel is also an area in which the DOD is exposed to exchange rate volatility.

The rent expense that the DOD remits to the host country is not only for the land on which the base is constructed, but also for outside facilities. Most military bases abroad are not large enough to accommodate all the facilities or people that are necessary for the successful operation of the installation. Hence, there are a significant proportion of military and civilian employees, often with accompanying families that live in off base housing. The U.S. government is responsible for paying the rent on these establishments in the local currency.

Local employees at U.S. bases overseas include but are not limited to gate guards, commissary (equivalent to a grocery store) employees, base restaurant employees, bank employees and those who work at the installation exchange (equivalent to a shopping mall). All installations require some of the positions to be filled by host country nationals. This applies to all units except those operating under maximum security such as those responsible for intelligence functions. Furthermore, certain positions, which require language skills, also need to be filled with local employees.

Overseas military installations require regular maintenance much like those in the United States. Contract employees that are locally hired perform infrastructure work at overseas facilities. The fees for these and other contract work are in the local currency. Another significant area of exposure is local travel. Traveling is part of the military lifestyle. Depending on the current political climate and an individual's responsibility, U.S. service members may have to travel quite extensively on temporary assignments. For those individuals who are stationed overseas and who travel within their local area, travel is on regional modes of transportation (local airlines, trains, etc.). Local vendors expect to be paid in the local currency. In addition to temporary duty (TDY), military members and DOD civilians periodically relocate to another duty station in what is referred to as a permanent change of station (PCS). When moving to/from overseas locations or between two overseas locations, all moving related charges such as the shipment of household goods, is handled by locally based organizations who expect to be paid in the local currency.

In summary, the DOD is exposed to exchange rate volatility due to the presence of U.S. military installations abroad. These installations are designed to protect U.S. interests overseas. A military installation is analogous to a small city or town in that expenditures are made for a variety of support services such as building roads, repairing buildings, provision of utilities, and payment of local national personnel employed by the DOD. Host country firms and contractors provide many support services. Consequently, a significant amount of services are purchased with local currency and DOD faces substantial risk due to currency rate fluctuation.

Current Defense Department Policy on Exposure

The overall budget for DOD is large, projected at $700 billion in fiscal year 2018 (defense link news). The operations and maintenance part of the budget is estimated at $450.2 billion (defense link news). Although this amount represents estimated spending for both stateside and overseas activities, given the projection of U.S. forces throughout the world the potential risk from exchange rate exposure is large.

In order to obtain information on the magnitude of the figures associated with exchange rate, current and former employees of the Defense Finance and Accounting Service (DFAS) were interviewed on condition of anonymity. According to DFAS officials, exchange rate gains and losses can range anywhere from $500,000 to over $10,000,000 per installation depending on the size of the installation and the location. The DFAS sources indicated that the DOD does not engage in any sophisticated hedging techniques. There is a portion of the total budget allocated for each base, which is specifically set aside to deal with exchange rate gains and losses. All potential losses are passed on to U.S. taxpayers and could cost them millions.

The information from DFAS is consistent with current policy on managing foreign currency fluctuation risk within the DOD. The current policy was established by Congress in the DOD Appropriation Act of 1979 and is implemented by DOD Financial Regulation 7100.14R. The approach to managing currency risk is the use of a revolving fund into which gains from currency rate fluctuation are transferred and from which military installations may withdraw funds to lessen the impact of currency exchange losses. The policy from section 070103 of 7100.14R (section 070103, page 7-2) is as follows:

In fiscal year (FY) 1979, the Congress authorized an appropriation to facilitate the transfer of funds to (and from) DOD operating appropriations to cover significant losses from foreign exchange rate fluctuations. Significant net gains from foreign currency exchange rate fluctuation also shall be transferred to this account. The title of the appropriation is "Foreign Currency Fluctuations, Defense (FCF,D), symbol 97X0801. The purpose of the appropriation is to alleviate the adverse effect of significant fluctuations in the specified currency exchange rates on authorized DOD programs funded by O&M appropriations, and more recently, by MilPers appropriations.

In Fiscal Year 1987 Congress enacted legislation on currency rate fluctuation to protect DOD Military Construction, Family Housing and NATO infrastructure from substantial gains or losses from foreign currency fluctuations (DoD7100.14R, section 070104, page 7-2). While the 1979 language addressed the operations and maintenance appropriation, the 1987 legislation extends policy on exchange rate exposure to construction, housing, and NATO infrastructure. However, the revolving fund approach to risk management remains the same to this day.

In addition, the following information was obtained from the DOD Financial Management Regulation: The Office of the Under Secretary of Defense (Comptroller), (OUSD) manages the foreign currency fluctuations. Amounts are transferred by OUSD to the operating appropriations by means of a non-expenditure transfer authorization. These transferred funds are available only for funding a centrally managed allotment (CMA) established in each component's operating appropriation to cover net losses due to unfavorable exchange-rate movements. Since this appropriation is available only to fund net losses, gains and losses shall be accumulated in the CMA for each affected operating appropriation. If a net gain results, the balance shall be returned to the CMA prior to a lapse of funds.

The DOD component holding the CMA is protected by the anti-deficiency act provisions. Such provisions endeavor to ensure that the CMA is fully funded for projected disbursements. Should CMA funding drop below that level, immediate action shall be taken. Such action shall include providing additional funds from current accounts and, if necessary, advising all disbursing officers (DO) to cease payments from the CMA without prior certification until funding is obtained.

The author researched DOD internal memorandums extensively. The only mention regarding the use of hedging instruments is as follows: "The DOD requires authorization from the U.S. Treasury Department in order to utilize forward contracts to hedge their currency exposures." However, there was no indication that the department utilizes this privilege. Most of the memorandums seem to indicate that the DOD uses funds specifically set up to deal with fluctuating exchange rates. Gains are transferred back into the fund and losses are covered through the fund. In fact, some of the memorandums specifically make the following statement when discussing purchasing foreign currencies: "Currencies were purchased based on the prevailing exchange-rate at the time of purchase."

DOD vs. State Department with Respect to Financial Derivatives Usage

This paper has discussed the exchange-rate exposure and the resulting mitigation techniques employed by two U.S. federal departments which have significant exposure to currency volatility. This section provides a brief comparison of the nature of the exposure faced by these two departments.

It should be noted that although these two departments are fundamentally different, they have one thing in common: They both face economic exposures in excess of $5 billion annually owing to currency fluctuations. Although exact numbers were not available at the time of writing this paper, internal sources, some of whom work for the Defense Finance and Accounting Service (DFAS) have mentioned that such exposures occasionally top $10 billion. These sources were acting on condition of anonymity and so their names are not mentioned in this paper.

The DOD maintains military installations overseas and projects forces to different parts of the world. Each installation is like a small American town and the department expends resources pertaining to infrastructure, salaries of local nationals and the like. Many of these payments are made in the local currency thereby increasing the department's exchange rate exposure. The DOD also does not benefit from natural hedges since its operations are concentrated in certain parts of the globe such as Europe and the Pacific Rim.

The State Department, on the other hand, is more geographically diversified than the DOD. Embassies are located in the capital cities of most countries in the world. A small handful of countries with which the U.S. does not have diplomatic ties such as Iran and North Korea would be exceptions to this rule. In addition, many large countries, such as China and Russia, also have consulates in major metropolitan areas.

Although the State Department enjoys more favorable natural hedges than the DOD, it too suffers from the problem of unidirectional cash flows. The department expends resources in foreign countries, but it does not generate sufficient revenues in the local currency to provide a meaningful balance. Although the department does charge a nominal fee for various consular services that they provide, these fees are not sufficient to offset the cost of the infrastructure that they maintain at overseas locations.

In addition to the cost of maintaining overseas facilities, the department's American Citizen Services unit is responsible for protecting Americans who are living or travelling in the country in question. Often times, this protection comes in the form of providing funds in the local currency at a short notice. For example, if an American is arrested overseas, the nearest U.S. embassy or consulate is responsible for posting bail. Likewise, if an American is robbed while overseas, the local diplomatic mission may be responsible for arranging temporary financing for the victim.

Furthermore, there are many government agencies, such as the Department of Agriculture, the Department of Commerce and the U.S. Agency for International Development (USAID) that use State Department facilities to carry out their missions. At the present time, these agencies do not contribute towards the operation of the facility. Hence, the State Department has to bear the brunt of exchange rate volatility that is attributable to other agencies as well. The State Department is currently lobbying the U.S. Congress to pass legislation that would involve a cost-sharing program among agencies that operate out of a particular mission. However, at the present time, such legislation has not been passed. Additional details on these other agencies as well as on the roles and functions of the Department of State and its staff are provided in the appendix at the end of the paper.

Given the various sources of exposure faced by the State Department, the use of financial derivatives is imperative in order to mitigate exchange rate exposure. At the present time, losses owing to exchange rate volatility are being borne by the U.S. taxpayer.

Conclusions

Most major conglomerate firms engage in formal hedging activities to some extent. For the U.S. federal government, such activities are even more critical since they do not receive significant exposure reductions associated with geographical hedges. Many major multinational corporations diversify across several currencies. Since exchange rates do not always move in tandem, there is some benefit to such diversification.

Furthermore, most companies also derive benefits from two-way cash flows. Although corporations incur expenditures in foreign currencies, they also generate revenues in many foreign locations. This bi-directional cash flow stream tends to mitigate exchange-rate exposure for a multinational firm. For example, Toyota Motor Company has large manufacturing facilities in the U.S. If the Japanese Yen depreciates against the dollar, this would increase the firm's revenue stream when revenues generated in dollars are converted into yen. However, the expenses also increase since it now takes additional yen to acquire one dollar. These effects tend to offset one another to a certain extent.

The U.S. government, on the other hand, deals primarily with unidirectional cash flows. Although the government in general, and the departments of State and Defense in particular, incurs substantial foreign denominated expenses, it generates little revenue in foreign locations. Hence, the impact of exchange-rate volatility is more pronounced when compared to the private sector.

Given the fact of U.S. government operations and the resulting uni-directional cash flows in foreign currencies, the decision to utilize financial derivatives is just as critical, if not more so, than for private sector corporations. However, according to internal sources speaking on condition of anonymity and an examination of internal government memorandums, it has not even been on the table as a point of consideration.

The purpose of this paper has been to discuss the applicability of financial derivatives to the public sector. This was accomplished with respect to the U.S. Departments of Defense and State. The private sector uses financial derivatives to manage their exchange rate risk. To some extent, such usage is even more critical in the public sector since there are fewer natural hedges in place and cash flows are largely unidirectional.

The principal source of revenue for the U.S. government is the American taxpayer. When the government operates inefficiently, it is the taxpayer that generally suffers the consequences. In other words, the taxpayer is to the public sector as the shareholder is to the private sector. The American taxpayers should be rather interested in the results of this paper since it demonstrates one more expenditure they are picking up which can be avoided with some prudent risk management techniques that have been used by the private sector for decades.

As mentioned in the introductory section, there is little publicly available information on exchange rate exposure in the U.S. public sector. Hence, the information presented in this paper is limited to what could be gleaned from invoking FOIA and that provided by internal government sources who spoke on the condition of anonymity. The limited nature of publicly available information on this topic is one of the key limitations of this study.

There are several avenues for further research projects on this topical area. This study focused on exchange-rate exposure and the resulting usage of financial derivatives by two U.S. federal departments. There are potentially other agencies and departments which also have significant exchange-rate exposure. Future studies could investigate the level of exposure in some of these departments. Furthermore, this study focused exclusively on the U.S. public sector. Future studies could investigate this issue with respect to the public sector of other countries. These are two potential avenues for future research projects pertaining to the usage of financial derivatives in the public sector.

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Appendix: State Department Operations

U.S. Missions

To support its relations with other countries and international organizations, the United States maintains diplomatic and consular posts around the world. Under the President's direction, the Secretary of State is responsible for the overall coordination and supervision of U.S. Government activities abroad. Missions to countries and international organizations are headed by Chiefs of Mission. They are considered the President's personal representatives and, with the Secretary of State, assist in implementing the President's constitutional responsibilities for the conduct of U.S. foreign relations.

Most missions have personnel assigned from other executive branch agencies in addition to those from the Department of State; in some cases, State Department employees may account for less than one-half of the mission staff. Department of State employees at missions comprise U.S.-based political appointees and career diplomats, and Foreign Service Nationals. The last are local residents, who provide continuity for the transient American staff and have language and cultural expertise; they also are employed at post by other agencies.
Other executive branch agencies represented may include the Departments of Commerce, Agriculture, Defense, and Justice (the Drug Enforcement Administration and the Federal Bureau of Investigation) and the U.S. Agency for International Development. Other U.S. Government agencies also make vital contributions to the success of U.S. foreign relations and in promoting U.S. interests.

Country Missions

In most countries with which it has diplomatic relations, the U.S. maintains an embassy, which usually is located in the host country capital. The U.S. also may have consulates in other large commercial centers or in dependencies of the country. Several countries have U.S. ambassadors accredited to them who are not resident in the country. In a few special cases--such as when it does not have full diplomatic relations with a country--the U.S. may be represented by only a U.S. Liaison Office or U.S. Interests Section, which may be headed by a Principal Officer rather than a Chief of Mission.

The **Chief of Mission**--with the title of Ambassador, Minister, or Charge d'Affaires--and the Deputy Chief of Mission head the mission's "country team" of U.S. Government personnel. Responsibilities of Chiefs of Mission at post also include:

- Speaking with one voice to others on U.S. policy--and ensuring mission staff do likewise--while providing to the President and Secretary of State expert guidance and frank counsel;
- Directing and coordinating all executive branch offices and personnel (except for those under the command of a U.S. area military commander, under another chief of mission, or on the staff of an international organization);
- Cooperating with the U.S. legislative and judicial branches so that U.S. foreign policy goals are advanced; security is maintained; and executive, legislative, and judicial responsibilities are carried out;
- Reviewing communications to or from mission elements;
- Taking direct responsibility for the security of the mission--including security from terrorism--and protecting all U.S. Government personnel on official duty (other than those personnel under the command of a U.S. area military commander) and their dependents;
- Carefully using mission resources through regular reviews of programs, personnel, and funding levels;
- Reshaping the mission to serve American interests and values and to ensure that all executive branch agencies attached to the mission do likewise;
- Serving Americans with professional excellence, the highest standards of ethical conduct, and diplomatic discretion.

The country team has responsibilities covering the following areas:

Consular Affairs. Whether in a U.S. embassy or a consulate, consular officers at post are the State Department employees whom both American citizens overseas and foreign nationals are most likely to meet. Consular officers protect U.S. citizens abroad and their property. Overall, they touch the lives of millions of Americans living and traveling abroad:

Consular officers provide emergency loans to U.S. citizens who become destitute while traveling abroad, search for missing Americans at the request of their friends or family, visit arrested Americans in prison, maintain lists of local attorneys, act as liaison with police and other officials on matters that affect the welfare of American citizens, re-issue lost or stolen passports, assist in resolving international parental kidnaping cases, help next of kin when American relatives die abroad, and generally provide many types of assistance to U.S. citizens abroad.

Consular officers also perform non-emergency services -- dispensing information on absentee voting, Selective Service registration, and acquisition and loss of U.S. citizenship; providing U.S. tax forms; notarizing documents; issuing passports; and processing estate and property claims. U.S. consular officers also issue about 6 million nonimmigrant visas annually to foreign nationals who wish to visit, work or study in the United States and almost 500,000 immigrant visas to those who wish to reside here permanently.

Commercial, Economic, and Financial Affairs. By helping American businesses abroad, the Department helps Americans at home, since every $1 billion in exported goods generates about 20,000 jobs in the United States. State and Commerce Department officers specialize in four areas:

Commercial officers advise U.S. businesses on local trade and tariff laws, government procurement procedures, and business practices; identify potential importers, agents, distributors, and joint venture partners; and assist with resolution of trade and investment disputes.

Economic officers advise U.S. businesses on the local investment climate and economic trends; negotiate trade and investment agreements to open markets and level the playing field; analyze and report on macroeconomic trends and trade policies and their potential impact on U.S. interests; and promote adoption of economic policies by foreign countries which further U.S. interests.

Resource officers counsel U.S. businesses on issues of natural resources--including minerals, oil, and gas and energy--and analyze and report on local natural resource trends and trade policies and their potential impact on U.S. interests.

Financial attaches analyze and report on major financial developments as well as the host country's macro-economic condition.

Agricultural and Scientific Matters. Agricultural officers promote the export of U.S. agricultural products and report on agricultural production and market developments in their area. Animal and Plant Health Inspection Service officers from the U.S. Department of Agriculture are responsible for animal and plant health issues that affect U.S. trade and the protection of U.S. agriculture from foreign pests and diseases. They also expedite U.S. exports affected by technical sanitary and phytosanitary regulations.

Environment, science, technology, and health officers analyze and report on developments in these areas and their potential impact on U.S. policies and programs.

Political, Labor, and Defense Assistance Issues. Political officers analyze political developments and their potential impact on U.S. interests; promote adoption by the host country of foreign policy decisions which support U.S. interests; and advise U.S. business executives on the local political climate.

Labor officers promote labor policies in countries to support U.S. interests and provide information on local labor laws and practices, including wages, non-wage costs, social security regulations, the political activities of local labor organizations, and labor attitudes toward American investments.

Many posts have defense attaches from the Department of Defense. Security assistance officers are responsible for Defense Cooperation in Armaments and foreign military sales. They also function as the primary in-country point of contact for the U.S. defense industry and U.S. businesses.

Administrative Support and Security Functions. Administrative officers are responsible for normal business operations of the post, including overall management of personnel, budget, and fiscal matters; real and expendable property; motor pools; and acquisitions.

Information management officers are responsible for the post's unclassified information systems, database management, programming, and operational needs. They also are responsible for the telecommunications, telephone, radio, diplomatic pouches, and records management programs within the diplomatic mission and maintain close contact with the host government's communications authorities on operational matters.

Regional security officers are responsible for providing physical, procedural, and personnel security services to U.S. diplomatic facilities and personnel; they also provide local in-country security briefings and threat assessments to business executives.

Public Affairs. Public affairs officers, information officers, and/or cultural affairs officers of U.S. missions overseas serve as press spokespersons and as administrators of such official U.S. exchange programs as those for Fulbright scholars, Humphrey and Muskie fellows, and foreign participants in International Visitor consultations in the United States. They also direct the overseas U.S.

Speakers program and international electronic linkages such as the Worldnet TV satellite teleconferencing network at more than 200 posts.

Legal and Immigration Matters. Legal attaches serve as Department of Justice representatives on criminal matters.

Bureau of Citizenship and Immigration Services officers are responsible for administering the laws regulating the admission of foreign-born persons (aliens) to the United States and for administering various immigration benefits.

USAID mission directors are responsible for USAID Programs including dollar and local currency loans, grants, and technical assistance. USAID also provides humanitarian assistance abroad during times of natural or man-made disasters. Helping other countries develop through foreign assistance programs helps American business. As other countries develop, they begin to import goods from abroad -- and now account for one-third of all U.S. exports and more than one-half of America's farm exports.