
BY THE U.S. GENERAL ACCOUNTING OFFICE

Report To Senator Malcolm Wallop

Events Leading To The Establishment Of The National Endowment For Democracy

In November 1983, Congress authorized funding for a newly established National Endowment for Democracy, a private organization created to encourage democratic institution building abroad. Endowment activities will be carried out by international institutes of organized labor, business, and the Democratic and Republican Parties. The Endowment received an \$18 million appropriation for fiscal year 1984. Congress is considering a \$31.3 million appropriation request for the Endowment for fiscal year 1985.

This report discusses the research upon which the Endowment's establishment was recommended, the status of its operations as of April 1984, and the types of activities it will sponsor. GAO believes the Endowment should complete basic start-up tasks before funding further activities and should fully address the issues raised in this report.



029371

GAO/NSIAD-84-121
JULY 6, 1984

Request for copies of GAO reports should be sent to:

**U.S. General Accounting Office
Document Handling and Information
Services Facility
P.O. Box 6015
Gaithersburg, Md. 20760**

Telephone (202) 275-6241

The first five copies of individual reports are free of charge. Additional copies of bound audit reports are \$3.25 each. Additional copies of unbound report (i.e., letter reports) and most other publications are \$1.00 each. There will be a 25% discount on all orders for 100 or more copies mailed to a single address. Sales orders must be prepaid on a cash, check, or money order basis. Check should be made out to the "Superintendent of Documents".



UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

NATIONAL SECURITY AND
INTERNATIONAL AFFAIRS DIVISION

B-214585

The Honorable Malcolm Wallop
United States Senate

Dear Senator Wallop:

At the request of your office we are reporting on the events leading to the establishment of the National Endowment for Democracy in November 1983. As part of our review, we examined the Endowment's evolution from its inception to its congressional authorization, the research upon which its establishment was recommended, the types of activities it will sponsor, and the status of its operations as of April 1984.

We are sending copies of this report to the Chairmen of the House and Senate Committees on Appropriations, the House Committee on Foreign Affairs, the Senate Committee on Foreign Relations, the Director, Office of Management and Budget, and other interested parties.

Sincerely yours,

A handwritten signature in dark ink, reading "Frank C. Conahan". The signature is written in a cursive style with a large initial "F".

Frank C. Conahan
Director

D I G E S T

At the request of Senator Malcolm Wallop, GAO reviewed the events leading to the establishment of the National Endowment for Democracy in November 1983. Specifically, GAO

- traced the evolution of the idea for an Endowment, from the President's speech supporting the promotion of democracy abroad before the British Parliament in June 1982 to congressional authorization of the Endowment's activities in November 1983;
- determined whether grant funds for the feasibility study were spent for the intended purposes and evaluated the research which served as the basis for a recommendation that the Endowment be established;
- attempted to clarify the types of activities which the Endowment will sponsor; and
- determined the status of the Endowment's operations and those of four private sector institutes which will implement activities for the Endowment.

BACKGROUND

In a June 1982 speech before the British Parliament, President Reagan expressed his support for a study to determine how the United States could more effectively contribute to the development of democratic values and institutions abroad. The resulting feasibility study, termed The Democracy Program, was sponsored by the bipartisan American Political Foundation. The study was conducted between December 1982 and November 1983 by a small research staff and overseen by an executive board composed of representatives from the two major political parties, labor, business, Congress, and the private sector. The study was financed through grants totaling \$400,000 from the Economic Support Fund and the President's Unanticipated Needs Account. The Agency for International Development (AID) administered the grants.

Based on the preliminary findings of the Democracy Program, legislation was introduced in April 1983 to authorize funding for a non-profit, private sector organization called the National Endowment for Democracy. The Endowment's purpose was to encourage free and democratic institutions throughout the world through private sector initiatives. In November 1983, Congress enacted a 2-year authorization bill and, of the amount appropriated to the United States Information Agency (USIA) for fiscal year 1984, designated \$18 million for the Endowment. The Democracy Program had not submitted its final report and recommendations at that time, and questions remained as to what activities the Endowment would sponsor. The report was issued in February 1984.

THE DEMOCRACY PROGRAM FEASIBILITY STUDY

GAO reviewed the research conducted under the Democracy Program feasibility study and found that (1) \$400,000 in grant funds were spent within the categories specified by the grants' financial plans and (2) the research conducted was germane to grant purposes and useful to future operations of the Endowment. GAO also found that

- private financing for half of the study specified by the initial grant agreement did not materialize;
- a broader composition of the research staff might have prompted more consideration of how entities other than business, labor, and the political parties might participate in the envisioned program;
- the decision to recommend that the Endowment be established was made before most of the research was completed;
- certain tasks specified in the grant agreements were not accomplished and some substantive issues were not addressed; and
- much staff attention was devoted to matters related to the Endowment's legislation.

The objective of the feasibility study was to recommend alternative ways to support democratic institutions abroad through existing and/or new mechanisms. However, the study

appears to have focused little attention on whether existing government agencies or private sector organizations other than labor, business, and the Democratic and Republican parties might be able to conduct or participate in the proposed program. (See ch. 2.)

STATUS OF THE ENDOWMENT
AND THE INSTITUTES IT WILL FUND

The Endowment's authorizing legislation specified that two organizations representing organized labor and business should receive funding--the AFL-CIO's Free Trade Union Institute and the National Chamber Foundation affiliated with the U.S. Chamber of Commerce. The Endowment may make discretionary grants to other organizations to carry out programs consistent with Endowment goals but is precluded from conducting activities itself. A board of directors composed of representatives from Congress, labor, business, the two major political parties, and the private sector will oversee Endowment activities.

In April 1984, the Endowment's Board decided to allocate its \$18 million fiscal year 1984 appropriation as follows, contingent upon submission of satisfactory program proposals.

--\$11 million to the Free Trade Union Institute.

--\$1.7 million to the Center for International Private Enterprise, a program of the National Chamber Foundation.

--\$1.5 million to the National Democratic Institute for International Affairs.

--\$1.5 million to the National Republican Institute for International Affairs.

--\$2.3 million for Endowment administrative expenses and discretionary grants to other organizations.

Legislation for the Endowment did not create either the Endowment or its major grantees but merely provided a mechanism for funding them. Only the Free Trade Union Institute, however, was in operation before 1983. The other institutes which will carry out Endowment programs had little or no operating funds until they

received interim funding from the Endowment in April 1984. Staffing and operational plans for both the Endowment and the institutes were in their formative stages and project plans were tentative at that time. (See ch. 3.)

ISSUES AFFECTING THE FUTURE OF THE ENDOWMENT

GAO identified several issues which could affect future Endowment operations if left unresolved.

- Uncertainties over what relationship the Endowment's legislation created between USIA and the Endowment.
- The Endowment's appropriate interface with the Department of State.
- How Endowment activities will differ from, and relate to, existing U.S. government and private sector programs promoting the Endowment's purposes.
- Role of the Democratic and Republican party institutes in the program.

GAO believes that the newly appointed Endowment president and the Endowment Board need to address these issues in consultation with Congress where appropriate. (See ch. 4.)

PERSPECTIVES ON THE FUTURE OF THE ENDOWMENT

Government officials, Endowment and institute officers, congressional representatives and other interested individuals have expressed varying opinions on whether the Endowment can effectively promote democracy abroad. While some individuals questioned the workability of the Endowment's operations, others remain convinced that

- the United States should have a leading role in strengthening democratic institutions abroad;
- the Endowment can serve as a useful focal point for activities directed toward this end; and

--business, labor, and the two political parties are the legitimate entities to carry out the activities envisioned.

CONCLUSIONS

If the Endowment is to be successful, it needs to gain credibility during its initial period of operation. One way this can be achieved is by laying a firm foundation for Endowment operations before funding activities. Formulating program goals, developing plans and procedures, defining criteria for selecting grantees and establishing funding priorities are some of the basic tasks that should be undertaken before further activities are funded.

AGENCY COMMENTS

AID agreed with the contents of the report. (See p. 16 and app. I.) USIA had no written comments except to concur with GAO's conclusions regarding the uncertain relationship between USIA and the Endowment. (See app. II.)

The Endowment, in commenting on chapters 3 and 4, agreed with GAO's conclusions stated above and outlined organizational and procedural steps it has taken in laying a foundation for Endowment operations. GAO views these actions as positive steps toward insuring an effective organization. However, GAO also notes that although many of the procedural documents cited to demonstrate progress have not yet been finalized, the Endowment has already begun to fund activities. GAO maintains that basic start-up tasks should be completed before further activities are funded. (See pp. 23, 32 and app. III.)

GAO made technical revisions to the report suggested by AID and the Endowment where appropriate.

The President of the AFL-CIO, the Vice President of the International U.S. Chamber of Commerce, and the Chairmen of the Democratic and Republican National Committees jointly commented on chapters 1 and 2. They agreed that the report raises concerns which must be answered over time. They disagreed, however, with GAO's conclusions related to the conduct of the Democracy Program feasibility study, particularly with regard to composition of the research staff, sequence of events under the

study, and the scope of the research. GAO maintains that

- a broader staff composition might have prompted more consideration of how other entities might be involved in the program;
- completion of all research before legislation was introduced would have been a better sequence for the study; and
- substantive issues not examined during the study remain to be addressed.

The comments of these individuals and GAO's evaluation are included in appendix IV.

RECENT CONGRESSIONAL ACTIONS

GAO completed its review in April 1984. In May and June 1984 Congress considered USIA's fiscal year 1985 appropriation request which included funding for the Endowment. The House, following extensive debate, voted to eliminate from the bill the entire \$31.3 million proposed for the Endowment. The debate included discussion of whether adequate controls exist to ensure funds are not misused and the role of the two political parties in the Endowment's program. The Senate approved a reduced level of \$21.3 million and precluded funding of the two political party institutes. A conference committee of the two houses of Congress is expected to work out a compromise. Another proposed bill would give the Endowment an additional \$3 million to implement recommendations of the President's National Bipartisan Commission on Central America.

GAO believes the extensive debate over the Endowment's fiscal year 1985 appropriation underscores the need for the Endowment to gain credibility during its initial period of operation. GAO maintains that the Endowment should complete basic start-up tasks before funding further activities and address the issues contained in this report. (See ch. 3 and 4.)

C o n t e n t s

	<u>Page</u>
DIGEST	1
CHAPTER	
1	
PROMOTING DEMOCRACY ABROAD: EVOLUTION	
OF AN IDEA	1
Introduction of legislation	2
Objectives, scope, and methodology	4
2	
THE DEMOCRACY PROGRAM FEASIBILITY STUDY	6
Funding	6
Staffing	7
Observations on the research	9
Attention to legislative matters	13
Compliance with AID grant provisions	15
Conclusions	15
Agency comments and our evaluation	16
3	
STATUS OF ENDOWMENT AND INSTITUTE	
OPERATIONS	18
National Endowment for Democracy	19
Free Trade Union Institute	20
Center for International Private Enterprise	20
International institutes of the Democratic and Republican Parties	21
Conclusions	23
Agency comments and our evaluation	23
4	
ISSUES AFFECTING THE FUTURE OF THE	
ENDOWMENT	26
Relationship between USIA and the Endowment	26
Interface between the Endowment and the Department of State	28
Relationship of Endowment activities to existing programs	29
Role of the party institutes	29
Perspectives on the future of the Endowment	30
Conclusions	31
Agency comments and our evaluation	32
Recent congressional actions	33

		<u>Page</u>
APPENDIX		
I	Comments by the Agency for International Development	34
II	Comments by the United States Information Agency	36
III	Comments by the National Endowment for Democracy	37
IV	Comments by the President, AFL-CIO; Vice President, International U.S. Chamber of Commerce; Chairman, Democratic National Committee; and Chairman, Republican National Committee	45

ABBREVIATIONS

AID	Agency for International Development
APF	American Political Foundation
GAO	General Accounting Office
USIA	United States Information Agency

CHAPTER 1

PROMOTING DEMOCRACY ABROAD:

EVOLUTION OF AN IDEA

A number of American leaders have long discussed the need for a nongovernmental mechanism to assist democratic institutional development abroad. In the 1950s, American labor leaders and a few national political officials explored proposals for developing a structure for promoting democracy abroad through the private sector. In the late 1960s, after public disclosure of the CIA's covert funding of overseas activities of some American private voluntary organizations, Johnson administration officials urged the creation of a new nongovernmental organization to provide overt funding to American private sector groups engaged in worthwhile international programs. In 1967, a bill was introduced in Congress to create an "Institute of International Affairs" to serve this purpose. The bill, however, was not passed.

In the late 1970s, there was renewed interest in establishing an organization to promote democracy abroad. Several American political leaders became interested in the activities of the West German political party foundations which receive government funding to engage in political institution building abroad. These leaders held discussions on how the United States could become involved in a similar effort. In 1979, leaders of the Democratic and Republican parties established the American Political Foundation (APF) as a private nonprofit organization to undertake bipartisan political exchanges. The APF served as a nongovernmental mechanism for bringing American political party delegations into association with their counterparts abroad. Prior to this, American parties had little contact with foreign parties and little institutional involvement in international affairs.

In 1980 and 1981, leaders of the APF and various academicians organized a series of intensive discussions on the idea of a new U.S. democratic assistance program. In early 1982, the APF, encouraged by the State Department and interested members of Congress, formulated a proposal to sponsor a research study to examine what the United States could do to support democratic forces abroad. In June 1982, a few days before President Reagan was scheduled to address the British Parliament, the APF wrote the President a letter seeking support for the proposed study. The letter referred to the German party foundations' "open and effective programs to support democratic political forces throughout the world. . ." and indicated that the study would examine such questions as whether a U.S. program:

"should be bipartisan, what, if any, should be the connection with the government, how to handle

the tension between maintaining friendly relations with current governments while sowing the seeds of democratic successors, how to encourage domestic pluralistic forces in totalitarian countries, and what level of resources are required."

In his speech before the British Parliament, President Reagan supported the proposed APF study. He referred to the efforts of German and other European parties to assist democratic forces abroad and stated that "We in America now intend to take additional steps as many of our allies have already done, toward realizing this same goal."

In the summer and fall of 1982, members of the APF board worked to choose a director and staff for the study--which they called "The Democracy Program"--and deliberated on the composition of a board of directors for the project. The Democracy Program study received initial funding in December 1982 from the Economic Support Fund administered by the Agency for International Development (AID).

INTRODUCTION OF LEGISLATION

Two separate legislative proposals resulted from the President's June 1982 speech. First, in February 1983, the administration introduced legislation to authorize "Project Democracy," a program which would fund projects through the United States Information Agency (USIA), AID, and the State Department to support democratic institutions abroad. Second, in April 1983, a separate bill based on recommendations of the Democracy Program study was introduced to authorize funding for a National Endowment for Democracy, a nongovernmental organization designed to fund and coordinate private sector programs to support democracy overseas. Because the names of these proposals were similar and they were introduced at about the same time, some confusion resulted.

Project Democracy

Under the administration's Project Democracy proposal, 28 existing educational and cultural exchange and training programs funded by USIA, AID, and the State Department were to be expanded and 20 new government and private programs promoting democracy abroad were to receive funding. In addition, increased support was to be given to nongovernment organizations, such as the AFL-CIO and the Asia Foundation, to expand their institution-building efforts overseas. USIA was to be the lead agency in this initiative, requesting a \$20-million supplemental appropriation for fiscal year 1983 to launch the project and \$65 million for each of fiscal years 1984 and 1985.

Committees in the House and Senate, however, were skeptical of Project Democracy when it was introduced in February 1983. Committee members questioned its workability and feared that

foreign governments would view it as a propaganda program. The committees ultimately rejected most of the individual proposals for Project Democracy and instead approved additional funding for the Asia Foundation and existing USIA exchange programs.

Legislation authorizing a
National Endowment for Democracy

On April 18, 1983, the Democracy Program released an interim report which recommended establishing an Endowment which would be incorporated as a private, nonprofit entity and receive annual government funding. The Endowment would in turn disburse funds to institutes created by the two major political parties, American labor, and American business and to other private sector grantees, all of which would work to promote democratic institutions abroad.

The same day the interim report was released, a House subcommittee held open markup on the State Department authorization bill for fiscal years 1984 and 1985. The bill included an authorization of appropriations for the Endowment. Its language paralleled the Democracy Program interim recommendations.

By mid-June, committees in both the House and Senate had held hearings on the Endowment's authorization and the full House had approved an authorization bill. Some members of Congress began to voice concerns that the Endowment's legislation, which in essence created a new federal program, was not receiving the scrutiny it deserved. For example, at committee hearings, representatives from labor and the two major political parties--major organizations envisioned to receive Endowment funds and implement the program--had testified in favor of the legislation. However, no administration witnesses were called to give their views of whether the Endowment was needed. Other concerns were that:

- The Democracy Program had not, at that time, issued a final report with recommendations for the Endowment.
- No specific projects or activities that the Endowment would undertake had been discussed in the hearings.
- No clear distinction had been made between what the Endowment would do and what might be accomplished by existing agencies and programs.
- Funding for the international institutes of the two major political parties might prove to be controversial.

In November 1983, Congress passed a 2-year authorization for the Endowment and appropriated \$18 million for its fiscal

year 1984 operations (Public Laws 98-164 and 98-166). The above concerns, however, were not addressed when these bills were enacted. For fiscal year 1985, USIA has requested \$34.3 million for the Endowment, which includes \$3 million to implement recommendations of the President's National Bipartisan Commission on Central America.

OBJECTIVES, SCOPE, AND METHODOLOGY

At the request of Senator Malcolm Wallop, we reviewed the events leading to the establishment of the National Endowment for Democracy, including the conduct of the Democracy Program feasibility study. Our overall objective was to shed light on some of the questions that remained unanswered when the Endowment's legislation was passed. More specifically, our review was directed toward

- tracing the evolution of the idea for an Endowment, from the President's speech supporting the promotion of democracy abroad before the British Parliament in June 1982 to congressional authorization of the Endowment's activities in November 1983;
- determining whether \$400,000 in grant funds for the Democracy Program feasibility study was spent for the purposes intended and whether the research conducted under the grant supported the recommendation that the Endowment be established;
- clarifying the types of activities in which the Endowment and its associated institutes might participate; and
- determining the status of the Endowment's operations and that of the institutes through which it plans to carry out activities.

We examined official files, financial records and working papers of the Democracy Program and discussed the conduct of the feasibility study with its director and principal research staff members. We also discussed the project with the former president of the American Political Foundation and reviewed APF materials pertinent to its Democracy Program grants.

We discussed tentative plans of the National Endowment for Democracy with its acting president and reviewed official files for its initial months of operation as well as minutes of its first four Executive Board meetings. We also discussed with knowledgeable officials the planned operations of the Endowment's major grantees--the Free Trade Union Institute of the AFL-CIO, Center for International Private Enterprise of the National Chamber Foundation, National Democratic Institute for

International Affairs, and National Republican Institute for International Affairs.

We reviewed AID grant files related to the Democracy Program study and discussed compliance with grant terms with the grant officer. We also reviewed USIA files related to negotiations toward a USIA grant agreement with the Endowment and discussed its terms with attorneys for both USIA and the Endowment.

Our review was conducted in Washington from January to April 1984 in accordance with generally accepted government auditing standards.

CHAPTER 2

THE DEMOCRACY PROGRAM FEASIBILITY STUDY

The Democracy Program feasibility study was conducted in two phases with \$400,000 in grants to the American Political Foundation. The first phase was conducted December 1, 1982 through July 30, 1983, and the second August 1 through November 30, 1983. The broad objective of the study as stated in the initial grant agreement was to determine the feasibility of various programs and institutional arrangements to promote the development and strengthening of democratic forces overseas. The purpose of the second phase was to continue the research and to prepare detailed structural and program plans for the National Endowment for Democracy and the institutes it recommended for funding.

We found that grant funds were spent within the categories specified in the financial plans of the grant agreements. The research conducted under the study appeared to be germane to the purposes of the grants and useful to the future workings of the Endowment and its institutes. However, we also found that:

- Private financing for half of the study was specified by the grant agreement but did not materialize.
- A broader staff composition might have prompted more consideration of how entities other than business, labor, and the political parties might participate in the envisioned program.
- The study's Executive Board decided that the Endowment should be established before most of the research was completed.
- Much staff attention was devoted to matters related to the Endowment's legislation.
- Substantive issues which the APF intended the study to examine and other issues raised by U.S. officials overseas were not addressed.

FUNDING

The initial grant agreement between AID and APF specified that the Democracy Program study would be a 6-month \$300,000 study funded half by AID and half through private sector contributions. The AID contribution was to come from the Economic Support Fund. The study ultimately became a year-long, \$400,000 study wholly funded by the government.

In the fall of 1982, AID's Office of the Inspector General conducted a routine audit of the APF to determine its suitability as an AID grantee. The Inspector General said that, due to APF's minimal cash balance, the AID grant should not be awarded until the APF demonstrated that it "could obtain the balance of the matching funds from sources other than AID." AID officials, however, decided to award the \$150,000 grant and obtained a waiver to proceed, with the justification that it was almost certain that private funds would be raised. The grant was to run from December 1982 through June 1983.

Soon after the \$150,000 grant was awarded, it became clear that the expected private matching funds would not materialize despite APF fund-raising efforts. Although the APF solicited contributions for the study in the summer of 1982 from over 50 private sector organizations and foundations, the AFL-CIO was the only organization to contribute. Its \$25,000 contribution was made to further the work of the APF and ultimately was not spent for Democracy Program expenses.

On January 5, 1983, the AID Administrator requested a \$150,000 grant from the President's Unanticipated Needs Account (3 U.S.C. §108) to complete funding for the study since the expected private funds were not forthcoming. The President approved the request and the grant agreement was amended to reflect this increase. The grant, which continued to be administered by AID, was later extended to July 30, 1983.

In July 1983, the APF requested and received another grant from the President's Unanticipated Needs Account for \$100,000 for August 1 to October 15, 1983, to continue the research in progress and to prepare detailed structural and program plans for the Endowment and related institutes. This grant was also administered by AID. The period of the grant was later extended to November 30, 1983.

STAFFING

Under the terms of the first grant, the APF delegated overall direction and oversight of the Democracy Program to an Executive Board composed of representatives of Congress, the two major political parties, business, labor, and the private sector. Day-to-day management of the study was given to a project director. Most of the research was conducted during the first phase of the study by four staff members who served as representatives of business, labor, and the Democratic and Republican parties, and a part-time consultant who had authored a book related to democratic institution building abroad. Two other staff members served primarily as administrative assistants and a third served as a public affairs/congressional liaison. About a dozen consultants were engaged for a few days each, some of whom prepared memorandums on topics related to the study.

The Executive Board selected by APF took an active role in the early stages of the study in working out the details of an organizational structure for an Endowment with Democracy Program staff. The first AID grant agreement specified that the study's report and recommendations were to be reviewed by a 40-member advisory panel of experts. An AID official told us that the study's Executive Board later decided that the Board's broad composition obviated the need for a separate review panel.

The Democracy Program director told us that, because it was recognized from the start that business, labor, and the two political parties were the legitimate entities to conduct a new program to strengthen democratic institutions abroad, it was important that each of these interest groups have major roles in the study. The director accordingly selected staff for the project who were nominated by, and intended to represent the interests of, these four groups. We believe, however, that a broader staff composition might have prompted greater consideration of how other private sector and governmental entities might also participate in the envisioned program.

The AID grant agreement described the project as a "feasibility" study and stated that, in undertaking the study, no assumption would be made on the desirability or operating conditions of any particular program or structure. Staff members advised us, however, that the Democracy Program was not a feasibility study in the academic sense but instead was a study to work out a mechanism by which labor, business, and the two political parties could conduct programs abroad promoting democratic institutions and processes. They therefore saw their role as one of examining how their respective interest groups might best be involved in the envisioned new program. Little analysis was made of how other private and voluntary organizations, educational and religious organizations, and the media might fit into a new program.

The first grant agreement also stated that the Democracy Program would "recommend alternative ways in which democratic forces overseas can be supported through ongoing programs and/or new mechanisms." We found, however, that the staff decided very early in the study that new private sector programs and mechanisms would have to be established and that they focused little attention on whether existing government and/or private agencies might expand certain activities toward strengthening democratic institutions. Although one of the major activities to be performed under the study was to identify and evaluate existing public and private U.S. and Western countries' programs and/or new mechanisms, U.S. programs were not catalogued or evaluated in any systematic way. The Democracy Program did not recommend alternatives but simply described in its final report the types of programs that business, labor, and the two political parties might conduct from Endowment grants.

OBSERVATIONS ON THE RESEARCH

We reviewed the major research conducted during the Democracy Program study and found that:

- A comparison of possible organizational structures for the Endowment was the only substantive research completed before the decision was made to recommend that the Endowment be established.
- Some substantive issues raised by overseas posts and in staff-prepared regional reports were not discussed in the study's final report.
- Task force reports intended to examine how existing private sector organizations, such as churches, the media, foundations, universities, and specialized voluntary organizations might be involved in the envisioned programs, were not prepared.
- Project files contained insufficient information to evaluate whether discussions with foreign leaders in Washington and abroad supported the study's recommendations.
- Issues which the APF intended the study to examine were not addressed.

Comparison of organizational structures

During the first months of the study, the staff focused on designing a structure for a new organization to promote democratic forces abroad for consideration by the Executive Board. In doing so, the staff compared the structures and operating features of various government, quasi-government, and private-sector organizations, including the Asia Foundation, Inter-American Foundation, National Science Foundation, National Endowments for the Arts and Humanities, Corporation for Public Broadcasting, and others. For each organization, the staff compared (1) its legal nature (private, nonprofit corporation, government corporation, U.S. agency, other), (2) how it was created (by Congress, incorporated, etc.), (3) composition of its board of directors, (4) how it was funded (congressional appropriations, private contributions), and (5) who its grantees were.

Based on a comparative analysis of these and other factors, the research staff, in consultation with some Executive Board members, prepared a model for the Endowment to be considered at the March 16, 1983, Board meeting. At that meeting the full Board approved an organizational model for a proposed National Endowment for Democracy which they hoped would be created by

Congress in 1983 as a private, nonprofit corporation. This model served as the basis for the legislative draft.

An important distinction must be made between the model approved by the Board and the organization that later came into being. The model contemplated that Congress would create the Endowment. The ensuing authorizing legislation, however, merely recognized the existence of the Endowment as a private, nonprofit organization already incorporated in the District of Columbia and authorized funding for Endowment activities. The director of the Democracy Program told us that this significant change in the character of the Endowment was made because the Board members were not willing to accept a presidentially appointed board that they found would be necessitated if Congress were to create the Endowment.

State Department cable

At the outset of the study, a list of questions was sent to all U.S. embassies soliciting views on what activities a new program promoting democratic institution-building might include; the best organizational structure through which the program might operate; and the modes of operation most likely to overcome obstacles, avoid pitfalls, and seize opportunities. Over 100 posts provided information in response to the cable.

The overseas missions raised many substantive issues such as those below concerning a possible new program to promote democratic institutions abroad:

- Whether activities should be conducted by separate political party institutes or through a single bipartisan institute.
- Whether a consultative mechanism with overseas missions was desirable to ensure consistency with U.S. foreign policy.
- Whether a program promoting the growth of democratic institutions could realistically operate in certain countries.
- How best to coordinate Endowment activities with existing in-country programs to avoid duplication and/or competition for resources.

Although the final report of the Democracy Program states that the cable responses were valuable in designing the new program, it does not discuss the issues they raise. Further, only two of five regional reports prepared by the research staff discuss the cables' contents. The program director told us that the cable responses were not discussed in the final report because some of the material in them was sensitive and should not be publicly discussed.

Regional reports

Individual staff members prepared five reports to cover the regions of Africa, East Asia, South Asia, Latin America, and the Middle East. These reports discussed (1) the status of democratic development in each region and in individual countries, (2) existing U.S. and foreign activities, and (3) opportunities for a new U.S. program to function in each region. Regions were assigned to research staff on the basis of staff interest. Only one staff member appeared to have specialized expertise in the region assigned to him.

The reports contained useful information on the status of democracy in individual regions as well as ideas as to what types of activities would be appropriate for each region. They provided only cursory coverage of existing U.S. organizations operating in each region and generally ruled out the possibility of their fitting into the envisioned new program. Three of the five analyses recommended that the new program emphasize exchange visitor programs, conferences, and seminars but did not differentiate these envisioned programs from existing USIA and other government and private agencies' programs. Two reports expressed serious reservations as to whether a new U.S. program could effectively function in the region and consequently suggested only limited activities.

None of the regional reports had been completed at the time the Executive Board decided on the basic Endowment structure. Further, the reports' content was not discussed in the Democracy Program's interim or final reports.

Task force reports

Three task forces headed by Democracy Program staff members prepared reports concerning democratic electoral processes, business programs, and labor programs. These reports were not completed until after the Executive Board had decided on a structure for the Endowment.

At the outset of the study, the Project Director envisioned other task force reports to cover Democratic party affairs, Republican party affairs, Foundation programs, and other private sector programs (churches, media, universities, and others). Although the staff prepared brief working papers on past international activities of the Republican and Democratic parties and possible structures and activities for their proposed institutes, no formal task force reports were prepared. Task force reports to cover foundation programs and other private sector programs were assigned but not prepared.

The business and labor task force reports discussed how business and labor had been involved in activities abroad and how they could most appropriately be involved in a new program to strengthen democratic institutions abroad. Both reports are

appended to the Democracy Program's final report which was issued in February 1984, although certain sensitive information was omitted from the labor report.

The Democratic Electoral Processes task force was headed by a part-time consultant and contained input from several other consultants commissioned to prepare memorandums on specific topics. These consultants met in Washington and agreed on the series of recommendations contained in their report. The group concluded in its report that past private sector consultant efforts related to electoral processes had filled foreign needs reasonably well and that a large-scale, high priority effort by a new U.S. program to aid democracy abroad was not needed. They further concluded that (1) there was no logical reason why the Democratic, Republican, business, and labor foundations envisioned as the operating arms of the Endowment should perform the limited activities the task force proposed and (2) the Endowment itself might more appropriately carry them out. These conclusions were not mentioned in the body of the study's final report, although the task force report was appended.

Discussions with foreign leaders

The Democracy Program staff attended several overseas conferences related to the study, primarily in Europe, and held discussions with foreign leaders on two other trips to Latin America. These trips were directed primarily toward

- fact-finding on the structure and overseas activities of the German political foundations mentioned by the President in his speech before the British Parliament;
- soliciting the views of Western European leaders on the feasibility and design of a new U.S. program; and
- discussing with foreign leaders, particularly in Latin America, their views on what U.S. activities would be useful in strengthening democratic institutions in their countries.

According to the Democracy Program director, these discussions overseas were supplemented by many discussions in Washington with visiting foreign dignitaries.

The Democracy Program's final report stated that discussions were held with political, parliamentary, governmental, academic, labor, and business leaders from more than 60 countries; however, we were unable to verify the extent of the foreign contacts. Democracy Program staff were able to provide trip reports for only about half of the trips taken and, with one exception, no written records or dates of meetings held in Washington with foreign officials. The documentation provided

was insufficient to allow us to evaluate the extent to which these discussions supported Democracy Program recommendations.

Issues not addressed

As mentioned in chapter 1, the APF, in proposing the feasibility study to the President, stated that the study would examine such questions as:

- Whether a U.S. program to promote democratic forces overseas should be bipartisan.
- What connection, if any, the program should have with the government.
- How to handle the tension between maintaining friendly relations with current governments while sowing the seeds of democratic successors.
- How to encourage domestic pluralistic forces in totalitarian countries.
- What level of resources the new program would require.

Staff members advised us that the issue of whether the new U.S. program should include separate party institutes or a single bipartisan institute was extensively discussed during the study. The final report, however, does not evaluate the arguments for the partisan approach which was ultimately recommended. The other issues received either cursory treatment or were not addressed in the report. The director advised us that the study had neither the time nor resources necessary to examine the question of what level of resources would be required for the new program.

ATTENTION TO LEGISLATIVE MATTERS

The Democracy Program staff appears to have devoted much time and attention to legislative matters. In some respects, the legislative calendar may have driven the sequence of events under the study.

At the outset of the study, the Democracy Program Board and staff recognized that an off-election year such as 1983 was the best time for the Endowment's legislation to be considered. Because of the need to get this legislation into the authorization process, the sequence of events became one of quickly deciding on the organizational structure for the Endowment, assisting in drafting the legislation, and finally completing the research.

As early as the first Board meeting on December 16, 1982, the legislative timetable confronting the program was discussed. In a March 2, 1983, memorandum to the Board, the director of the study cautioned that "we are racing the congressional clock in completing our work." Later, in transmitting the study's interim report and recommendations to the Board for comment on April 17, 1983, the director cited the "crash program" the staff had undertaken to prepare the report for use by the House and Senate subcommittees considering the Endowment's legislation. He also advised the Board that "the particular shape of the legislative draft to be introduced. . . has shaped the [report's] specific language before you at times." He asked the Board members to respond to the report by telephone the same day. The following day, a House subcommittee held open markup on the bill to authorize the Endowment and the Democracy Program interim report was issued.

Once the Democracy Program Board had approved the proposed structure for the Endowment on March 16, 1983, the focus of the study appears to have been one of how to assure passage of the Endowment's legislation. The director of the study said that he spent much of his time in responding to congressional requests for briefings on the Democracy Program. Considerable staff time appears to have been devoted to these briefings as well as to monitoring the legislative process. For example, the director and two staff members collectively had 86 contacts on Capitol Hill, either briefing individual congressmen or their staffs or following committee proceedings from April 18, when committee action began, to June 30, 1983.

Democracy Program files did not contain sufficient information to allow us to document legislative contacts by other staff members. However, a May 25, 1983, internal memorandum from the director reminded three staff members to "schedule individual appointments with the senatorial staff person for each member of the Appropriations Committee to brief them on NED [the Endowment], party institutes, et.al."

The content of the Democracy Program's final report and the timing of its release also appear to have been affected by the Endowment's legislation. Although the report was ready in October 1983, it was not issued until February 1984. The director said that this delay was partly because the Executive Board had not reviewed the report. Two staff members explained, however, that the staff did not want to issue the report before the Endowment's legislation was passed. In this regard, they said that because the report would become a historical document on the Endowment's creation, the report should conform to the legislative language.

The director of the Democracy Program said that staff time spent on legislative matters was important since creation of the Endowment was essential to the future of a U.S. program promoting democratic forces abroad. He therefore felt that doing

everything he could to see that the legislation passed was central to his mission as director of the study.

COMPLIANCE WITH AID GRANT PROVISIONS

The AID grant officer told us that, in her opinion, the Democracy Program had fulfilled the terms of the grant agreements. We found that project funds were spent within the categories specified by the grants' financial plans and that \$5,696 in unexpended grant funds was returned to AID at the conclusion of the study. Travel expenditures were considerably less than had been anticipated.

Although the staff accomplished much useful research, it did not fully complete some of the tasks specified in the grant agreements, particularly in the last agreement. According to the grant agreement, the staff was to prepare detailed structural and program plans for the Endowment and its related institutions from August 1, 1983 to October 15, 1983. The grant was later extended to November 30, 1983. The two major areas of work were to (1) develop procedures, bylaws, and potential program designs for the Endowment and related institutions and (2) continue the research begun under the feasibility study, translating the results into specific programmatic goals for the Endowment and institutes.

Staff members gave us copies of bylaws and preliminary organizational materials for the Endowment and two Party institutes in February 1984. We found no evidence, however, that specific programmatic goals for the Endowment and institutes were formulated or that structural or program plans were prepared during the study.

The description of work for the second phase of the project stated that the research would be continued by a staff which would be representative of the broad spectrum of interests involved in the program. We found, however, that the only full-time staff members during this phase were the business and Democratic Party representatives and an executive assistant to the director. A consultant used during the first phase of the project helped to draft the final report on a part-time basis. The director himself, however, had returned to his full-time job and worked only part-time on the project. Neither the Republicans nor labor was represented on the staff after mid-July 1983, their representatives also having returned to their former jobs.

CONCLUSIONS

In retrospect, completion of a well-documented feasibility study before legislation for the Endowment was introduced would have been a better sequence for the Democracy Program study. In some respects, the legislative calendar may have driven the sequence of events. A broader staffing pattern to include other researchers in addition to those representing the four groups

recommended for funding might have prompted greater consideration of the alternatives. Substantive questions such as those raised by the APF in its letter to the President and by U.S. officials overseas were not addressed.

Nevertheless, staff members remain convinced that regardless of the sequence of events and staffing pattern, the outcome of the study would have been the same. They maintain that a new private sector organization was needed to accomplish the goals envisioned by the President and that labor, business, and the political parties are the legitimate entities to carry out the envisioned activities.

AGENCY COMMENTS AND OUR EVALUATION

AID commented that the report accurately recognizes the political, appropriations, and timing considerations that were involved in the decision to move forward with the creation of the Endowment rather than wait until the completion of the Democracy Program study. Although not all tasks were accomplished during the study, AID believes the major objectives were achieved and, as a result, an important new program to strengthen democracy overseas has been created. AID further believes that the Endowment's core group of labor, business and the two major political parties will expand to include other private sector organizations and that the issues which were to be addressed in the feasibility study will be resolved in an evolutionary process. (See app. I.)

Although it is true that we recognize in the report the considerations which affected the sequence of events under the Democracy Program study, we do not believe that these considerations should have overshadowed the need for a well-documented study to serve as the basis for creating the Endowment. We maintain that the feasibility study was an important step in laying the foundation for future Endowment activities and a step which ideally should have been completed before proceeding with the legislative proposal. Nevertheless, we agree with AID that the questions to be answered during the study may not be fully resolved until the Endowment gains experience in administering its program. Expansion of more private sector groups into the Endowment's program may provide important supplementary viewpoints in addressing some of the issues raised during the study.

The President of the AFL-CIO, the Vice President of the International U.S. Chamber of Commerce, and the Chairmen of the Democratic and Republican National Committees commented on this chapter since they helped to put together the Democracy Program study and since institutions tied to these organizations are designated to receive substantial support from the Endowment. They agreed that the report raises concerns which the Endowment must consider over time. They disagreed, however, with our conclusions related to the conduct of the Democracy Program feasibility study, particularly with regard to

composition of the research staff, sequence of events under the study and the scope of the research. GAO maintains that

- a broader staff composition might have prompted more consideration of how other entities might be involved in the program;

- completion of all research before legislation was introduced would have been a better sequence for the study; and

- substantive issues not examined during the study remain to be addressed.

Their comments and our evaluation of them are included in appendix IV.

CHAPTER 3
STATUS OF ENDOWMENT AND
INSTITUTE OPERATIONS

Under its authorizing legislation (Pub. L. No. 98-164, Nov. 22, 1983), the National Endowment for Democracy will receive an annual grant from USIA. The Endowment will not conduct activities of its own but will make grants to other organizations to carry out programs consistent with Endowment goals. The legislation specifies that the Free Trade Union Institute of the AFL-CIO and the National Chamber Foundation, affiliated with the U.S. Chamber of Commerce, will receive Endowment funding. Discretionary grants will be made to other organizations from the remainder of its grant. USIA's fiscal year 1984 appropriation (enacted as part of Pub. L. No. 98-166, Nov. 28, 1983) included \$18 million for grants to the Endowment.

A board of directors composed of representatives from Congress, labor, business, and the two political parties are overseeing Endowment activities. At its April 1984 meeting the board agreed to allocate the \$18 million fiscal year 1984 grant as follows.

- \$11 million for the Free Trade Union Institute.
- \$1.7 million for the National Chamber Foundation's Center for International Private Enterprise.
- \$1.5 million from discretionary funds for each of the international institutes of the Democratic and Republican Parties.
- \$2.3 million for Endowment administration and discretionary grants to other organizations.

According to Endowment officials, disbursement of these funds is contingent upon the grantees submitting program proposals which meet standards established by the Board. We were advised that grant agreements between the Endowment and its grantees will contain requirements for oversight, financial accountability and reporting.

The Endowment's authorizing legislation did not create either the Endowment or its major grantees but merely provided a mechanism to fund them. We found, however, that only the Free Trade Union Institute of the AFL-CIO existed prior to 1983. The Endowment, the business institute, and the two party institutes, while incorporated in mid-1983, were just getting started at the time of our review. As of April 1984, plans for staffing, budgeting, and operating procedures for both the Endowment and its major grantees were in their formative stages and project plans were tentative.

NATIONAL ENDOWMENT FOR DEMOCRACY

The National Endowment for Democracy was incorporated in November 1983 and its first Board meeting was held in December. Initial activities of the Board were to set the terms of the directors, elect officers, and adopt bylaws. The Board also instructed the Endowment's acting president to negotiate a grant agreement with USIA which was concluded in March 1984.

The Endowment Board did not name a president until April 1984 following the work and recommendations of a presidential search committee appointed by the Board in January 1983. The president was to assume his position on May 1, 1984. The director of the Democracy Program study served as the Endowment's acting president until late February 1984. During March and April the Endowment's operations were overseen by the Chairman of the Board and an executive assistant, who had served in that capacity with the Democracy Program.

Although no other permanent staff had been hired, the Endowment had retained (1) a public accounting firm to assist in establishing financial systems and (2) an independent consulting firm to develop grant guidelines and to prepare a grant agreement to serve as a model for agreements with Endowment grantees. These consultants were just beginning their work at the conclusion of our review in April 1984 and had not produced any plans or documents which we could evaluate. In commenting on our draft report, Endowment officials stated that other consultants had been retained to work on program development and assessment and to prepare a staffing pattern and bibliography of relevant literature.

According to the acting president, the Endowment had not formally solicited proposals from potential grantees. However, as of April 1984, it had received over 75 project proposals. The Board had approved interim guidelines for selecting discretionary grantees in anticipation that the Endowment staff would finalize more specific guidelines later. No final decision had been made on whether to seek private financial support for the Endowment.

In March 1984, the Endowment Board approved administrative authorizations for the international institutes for labor, business, and the Republican and Democratic Parties to use up to \$400,000 to cover fiscal year 1984 administrative expenses incurred retroactive to December 1, 1983. The following month, the Board approved interim funding for the four institutes to cover expenses through May 1984. The four institutes submitted preliminary administrative plans and some program descriptions before interim funding was approved but did not submit detailed project proposals. The interim funding agreements will be superseded by grant agreements for the entire fiscal year (1984) when approved by the Board.

Although the party institutes are not specifically provided for in the legislation, the Endowment appeared to be treating them on a comparable basis with the labor and business institutes specifically earmarked for funding. That is, they were considered for funding along with the earmarked institutes rather than being considered with other private sector applicants. At the time of our review the Endowment had not approved funding for any discretionary grantees other than the two political party institutes. We were later advised by Endowment officials that the Board approved six projects for discretionary funding in June 1984.

FREE TRADE UNION INSTITUTE

The Free Trade Union Institute was established as a private, nonprofit organization in 1978 as an arm of the AFL-CIO's International Affairs Department. It was created to sponsor international exchanges and other projects not carried out by AFL-CIO's regional institutes but has been relatively inactive in recent years due to lack of funding.

The Free Trade Union Institute plans to use its Endowment grant primarily to fund projects to be carried out by three regional institutes--the American Institute for Free Labor Development, Asian-American Free Labor Institute, and African American Labor Center. They provide assistance to free trade unions in developing countries and receive the majority of their funding from AID. In addition, the Free Trade Union Institute will conduct most European and some miscellaneous projects itself.

The Democracy Program staff member who represented labor on the feasibility study now serves as executive director of the Free Trade Union Institute. According to this official, the institute has developed specific projects it would like to fund based on proposals from the regional institutes. The institute's grants will be used to expand such activities as aiding trade union centers, training union leaders, supporting trade union publications, and assisting trade union exiles and their families. Political activities outside the terms of its AID grants may also be funded.

The activities of the Free Trade Union Institute will be directed by the AFL-CIO International Affairs Department, which is responsible for coordinating AFL-CIO's entire international effort. We were told that although additional staff may be hired, the Free Trade Union Institute would remain small. It was unclear to what extent the AFL-CIO might provide supplemental funding to the Institute.

CENTER FOR INTERNATIONAL PRIVATE ENTERPRISE

The Center for International Private Enterprise was established in June 1983 as a program of the National Chamber

Foundation, a private, nonprofit organization affiliated with the U.S. Chamber of Commerce. Established to encourage the growth of voluntary business organizations and private enterprise systems abroad, the Center plans to

- assist business communities to strengthen their organizational capabilities;
- sponsor exchanges among business leaders;
- encourage business participation in the political process;
- develop leadership training for association executives; and
- establish an international research clearinghouse on the programs and effectiveness of business organizations.

The Center plans to work with existing international business organizations, such as the International Chamber of Commerce and the International Organization of Employers, which have assisted private enterprise development abroad for years. Before the Center's establishment, however, the business community had no mechanism for coordinating its promotion of overseas business activities.

The Center's activities will be overseen by the Board of the National Chamber Foundation and guided by an executive council composed of representatives of leading business organizations. These representatives had not been elected as of March 1984. The Center plans a staff of about 12, headed by an executive director, who had not been selected at the time of our review. The individual who represented business on the Democracy Program staff had been hired as special assistant to the director and one other staff member had been hired.

In addition to its grant from the Endowment, the Center may decide to seek private funds from the National Chamber's fund-raising activities, according to a Center official.

INTERNATIONAL INSTITUTES OF THE DEMOCRATIC AND REPUBLICAN PARTIES

The National Democratic Institute for International Affairs and the National Republican Institute for International Affairs were incorporated as private, nonprofit corporations in April 1983. However, neither institute had any operating funds before receiving interim funds from the Endowment in April 1984. The directors of the two institutes are the staff members who represented the Republican and Democratic parties on the Democracy Program study; no other staff had been hired as of

March 1984 nor had the institutes' Boards approved organizational structures, staff functions, or grant proposals.

Proposed activities

The Democracy Program's final report proposed that the two political institutes would engage in two types of activities--political exchanges between U.S. parties and their counterparts abroad and political development activities promoting democratic institutions in developing countries. The report envisioned that political exchange programs would initially outnumber political development assistance programs because of a "complex start-up process" for both institutes.

Contrary to the report's forecast, the director of the Democratic Institute told us that the institute may focus more on political development activities than on exchanges. He emphasized that the institute generally will not fund foreign parties directly but instead will work through local civic and educational institutions to fund such projects as voter registration and media training programs. The institute does not plan to restrict its activities to specific regions of the world.

The Democratic Institute is considering proposals to establish a political training academy for current and future Third World leaders and to bring foreign visitors to the Democratic National Convention in July 1984. The director said that as of March 1983, the institute had received several unsolicited project proposals. He also hoped to review some of the proposals the Endowment had received to determine whether they might appropriately be carried out by the Democratic Institute.

The director of the Republican Institute had also received some unsolicited project proposals from several developing countries, primarily in Latin America. He said that some of the proposals had resulted from discussions with foreign leaders during the Democracy Program study and would involve providing assistance in various facets of conducting elections. The director envisioned the institute focusing its efforts initially on Latin America and, to a lesser extent, Asia. He said that the Republican and Democratic Institutes would probably undertake some bipartisan activities when the circumstances were appropriate.

Organizational plans

The director of the Democratic Institute envisioned the organization having 12 to 15 staff members after its first year of operation. The institute may establish a small field office overseas in the future. The director believes that the institute's activities should be completely separate from those of the Democratic National Committee and that it should have separate fund raising efforts if the institute seeks private funds.

Preliminary staffing plans for the Republican Institute call for 12 staff members. The director said that the institute would have close ties with the Republican National Committee and would coordinate some activities with the Committee's Office of International Programs. The institute's director formerly served as the deputy director of that office. The director said that the institute may decide to seek some private funds from the Republican International Cooperation Fund set up in 1982 to provide financing for the Party's international programs.

CONCLUSIONS

The mechanics of how the Endowment and its four major grantees will operate did not appear to have been fully worked out as of April 1984. Not only were Endowment and institute

not been fully resolved.

- Upon what bases will the Endowment award grants to the earmarked institutes and discretionary grantees?
- How much oversight will the Endowment have over the institutes' awarding of grants?
- Will grant proposals be solicited?
- How will proposals received by the Endowment be distributed among the institutes and other grantees?
- How will the institutes and other grantees coordinate their projects and avoid funding duplicative or conflicting activities?

In our opinion these questions are basic to the Endowment's operations and need to be addressed before proposed activities are funded.

Neither the Endowment nor the institutes it will fund had decided whether they will seek supplemental private funds. Although the Endowment and the institutes were already established as private, nonprofit organizations before the Endowment was authorized, they appear to have little or no private financial support. Congress did not indicate when it authorized funding for the Endowment whether it intended these organizations to be entirely government-supported.

AGENCY COMMENTS AND OUR EVALUATION

The Endowment commented that it believes it is attending to its organization in a prompt and responsible manner. It outlined organizational actions taken from the Endowment's

incorporation in November 1983 to April 1984. These activities are noted in our report.

The Endowment also commented that its staff and consultants had more recently been engaged in preparing the following policy and procedural documents for consideration by the Board in June 1984.

- A broad conceptual paper of the Endowment's role within the context of public and private efforts to promote democracy.

- Statements differentiating the roles of the Endowment and USIA and explaining how the Endowment's efforts will assist related private sector efforts.

- Grant review and selection criteria.

- Procedures for monitoring and evaluation of Endowment grants.

The Endowment stated that these steps parallel those we suggested in the concluding section of our report. (See ch. 4.)

We believe that the steps which the Endowment has taken, partly in response to our suggestions, demonstrate its desire to get the Endowment off to a good start. Further, in our opinion the policy and procedural documents which are being prepared should contribute positively to the foundation being built for future Endowment activities. Based on our review of the documents cited and discussions with Endowment officials, however, we found that most of these documents had not been finalized. Through June 1984 the Endowment Board had approved only the grant review and selection criteria and a model grant agreement to be signed between the Endowment and its grantees. We noted that the Endowment's broad mission statement and its procedural manual are in draft form and are being revised. We also noted that the documents do not fully address the questions we raised regarding solicitation for, and distribution of, grant proposals, coordination of projects among grantees, and whether the Endowment will seek supplemental private funding. We also learned that USIA does not concur with the Endowment's statement differentiating their respective roles and that a proposed staffing pattern for the Endowment has been rejected.

Despite the tentativeness of Endowment policies and procedures, the Endowment advised us that it is proceeding to fund activities. We were advised that the business, labor, and political party institutes had initiated some activities with interim Endowment funding provided in April. Based on Board approval of a model grant agreement in June 1984, Endowment officials advised us that it would conclude final agreements with these institutes for the remaining fiscal year 1984 funds

allocated to them by the Board. As previously noted, the Board approved six discretionary projects for funding in June 1984.

Ensuring that operational procedures are in place and that fundamental policy issues have been addressed are essential to the smooth operations of any new organization. Funding activities before these policies and procedures are in place could lead to ineffective use of resources and jeopardize its credibility during this period of initial operations. Accordingly, we believe that the Endowment should complete these basic start-up tasks before funding further activities.

CHAPTER 4

ISSUES AFFECTING THE FUTURE OF THE ENDOWMENT

We identified the following issues which could affect future Endowment operations if left unresolved.

- Uncertainties over what relationship the Endowment's legislation created between USIA and the Endowment.
- The Endowment's appropriate interface with the Department of State.
- How Endowment activities will differ from, and relate to, existing U.S. and private programs promoting the same purposes.
- The proper role of the party institutes in the program.

We believe the newly appointed president of the Endowment and the Endowment Board need to address these issues, in consultation with Congress where appropriate.

Varied perspectives exist on whether the Endowment as currently set up can effectively achieve the goals envisioned by the President. If the Endowment is to be successful, it needs to gain credibility by assuring that basic start-up tasks are completed before further activities are funded.

RELATIONSHIP BETWEEN USIA AND THE ENDOWMENT

Lengthy negotiations between the Endowment and USIA over a grant agreement have contributed to delays in the Endowment's readiness to implement its program. Differing interpretations of provisions in the Endowment's authorizing legislation (Pub. L. No. 98-164) held up final signing of the grant agreement until March 1984, four months after the legislation was enacted.

Fundamental to the disagreements are two provisions of the Endowment's authorizing legislation.

1. Section 503(a) states that the grant agreement "may not require the Endowment to comply with requirements other than those specified in this title."
2. Section 503(b) states that "otherwise applicable limitations on the purposes for which funds appropriated to the United States

Information Agency may be used shall not apply to funds granted to the Endowment."

The Endowment's position has been that Congress intended the Endowment to be a unique private sector entity free from government control except as specified in its authorizing statute. Endowment officials have therefore resisted including provisions in the final grant agreement which would allude to USIA control or oversight of the Endowment's finances, programs or administrative operations. USIA's position has been that Congress did not intend these provisions to exempt the Endowment from normal grant conditions based on established Agency grant policies and practices, Treasury regulations, and Comptroller General opinions. These provisions are necessary, according to USIA, to allow the Agency to discharge its basic responsibilities for administering the grant.

Related to this issue is USIA's assertion that GAO audit rights over the Endowment in section 504(f) of the legislation also extend to USIA. The Agency's position is that the Endowment, as a federal grantee, is subject to the same rules that apply to any grantee, including the normal audit procedures. Attorneys for the Endowment have resisted acknowledging USIA audit rights, asserting that authorizing legislation already included a "comprehensive set of oversight requirements designed to ensure the complete operational integrity of the Endowment."

These issues have not been fully resolved, as evidenced by the grant agreement signed in March 1984 which provides that:

- USIA and the Endowment would submit to the Office of Management and Budget within 90 days a memorandum outlining which, if any, provisions of Circular A-122 (Cost Principles for Nonprofit Organizations), are applicable to the Endowment.

- Prior to USIA initiating any audit, USIA and the Endowment would request the Comptroller General to resolve the rights of audit asserted by USIA and to abide by that resolution.

These provisions do not directly address, but simply delay consideration of the fundamental issue of the appropriate relationship between USIA and the Endowment.

Further, the issue of the laws and regulations the Congress intended to exempt the Endowment from still needs to be addressed. In this regard, a bill was introduced in the House in March 1984 which would make the Endowment subject to the Freedom of Information Act. In commenting on our report, the Endowment advised us that the Board had adopted a resolution at its June meeting instructing the President to implement an "openness policy" whereby approved project proposals, Endowment

grant agreements, and other official documents would be available to the public upon request.

INTERFACE BETWEEN THE ENDOWMENT AND THE DEPARTMENT OF STATE

Although the Endowment was established as a private organization, some individuals believe the U.S. government, particularly the State Department, should have some involvement in the Endowment's operations. Officials of the Endowment and its grantees had varied opinions about what their relationship should be with the State Department.

Since the Endowment's authorizing legislation was enacted, the State Department's Director of Public Diplomacy has served as the Department's liaison with the Endowment. In the first few months of 1984, he arranged regional interagency "information sessions" with officials from AID, USIA, the State Department, and the National Security Council. State's only other formal involvement in the Endowment's activities thus far has been to send one cable informing diplomatic posts of the Endowment's authorization and a second cable asking the posts to provide names of party officials in their respective countries to serve as a data base for the Endowment.

The Director of Public Diplomacy said that State does not plan to routinely monitor Endowment activities but will concern itself with those activities which relate to foreign governments. Although there were some preliminary discussions about the possibility of a person chosen from the government's foreign affairs community serving on the Endowment staff on a rotational basis, the Endowment Board later decided against establishing that relationship.

In February 1984, the Endowment's acting president stated that the relationship with the State Department was still being worked out. The directors of the party institutes envisioned a continuing informal link between the institutes and the State Department and said that the institutes will coordinate their activities with embassies abroad. An official of the business institute said that the pattern of close cooperation with U.S. agencies that the business community has had over the years will continue in the new institute. A labor institute official said that since the AFL-CIO has been functioning abroad for years, the institute will not require advice on its operations from the State Department. Further, the labor official believes that the institute's activities might be compromised if it becomes too closely associated with the government.

Although the Endowment and its institutes have varying ideas about their interface with the government, cables from many of the diplomatic posts expressed the need for consultation with the Endowment in view of the potential sensitivity of some activities. Some posts also felt that, because of their

regional expertise, they could advise the Endowment as to the feasibility of proposed projects. State's Director of Public Diplomacy believes the potential sensitivity of Endowment activities reinforces the need for a systematic mechanism for close consultation with the government. Despite these concerns it appears that, unless this issue is formally addressed with some stipulation for consultations, coordination with the State Department will be left to the discretion of Endowment and institute officials.

In commenting on our report, the Endowment stated its intention to continue regular consultations with government agencies as appropriate to the functioning of a private organization dedicated to the pursuit of national purposes.

RELATIONSHIP OF ENDOWMENT ACTIVITIES TO EXISTING PROGRAMS

Exactly how projects funded by the Endowment and its institutes will differ from those already being sponsored by existing agencies and organizations is not clear. Some of the potential projects discussed by Endowment and institute staffs and mentioned in the Democracy Program's final report appear to be similar to activities already being funded by such agencies as USIA and AID. The final report, for example, indicated that the Endowment and its institutes will provide funding for educational exchange and visitors' programs, media training, and international seminars. The report also discusses proposed activities for the AFL-CIO's three regional institutes but does not clarify how these activities would differ from those which have traditionally received AID funding. It is also not clear whether the Endowment's support for these projects would supplement existing support from other agencies or whether it might supplant other sources of support.

In response to the January 1983 State Department cable requesting input to the Democracy Program study, some diplomatic posts reported that some private sector organizations were already conducting the types of projects envisioned by the new program. The programs of labor's regional institutes, the Asia Foundation, and the Inter-American Foundation were frequently mentioned. Endowment and institute officials advised us that the legislative mandates of government agencies preclude them from engaging in political activities and that these agencies would therefore be unable to fund many of the activities the Endowment envisions. However, the extent to which the Endowment will concentrate on these types of activities remains unclear.

ROLE OF THE PARTY INSTITUTES

The proper role of the party institutes in the Endowment's program has not been fully addressed. While the Endowment's authorizing legislation specifically earmarks funds for the Free Trade Union Institute and the Center for International Private

Enterprise, it does not earmark funds for the party institutes. As noted in chapter 3, however, the Endowment plans to award \$1.5 million during fiscal year 1984 to each of the party institutes on the same basis as the earmarked institutions. Each has already received interim funding without presenting comprehensive program proposals and without being considered with other applicants for discretionary funding.

The bill authorizing funds for the Endowment, as reported to the House by the Foreign Affairs Committee in May 1983, provided for a \$5-million grant to each of the party institutes. However, the House voted to delete earmarking for the institutes in June 1983 based on concerns that the activities that political parties might conduct overseas were ill-defined. The Senate subsequently included earmarking in its version of the bill, but the earmarking was dropped in the conference committee of the two houses. Thus, the November 1983 legislation did not contain earmarking for the party institutes. The conference report on the bill noted that earmarking was removed "without prejudice to their receipt of funds from the Endowment" but did not elaborate on why the earmarking was being deleted.

The language in the legislation's conference report indicates that the party institutes are eligible for discretionary funding from the Endowment, but it does not indicate whether they should receive preferential consideration for funding over other private sector organizations or should be considered for funds on the merits of their proposals.

PERSPECTIVES ON THE FUTURE OF THE ENDOWMENT

Government officials, Endowment and institute officers, congressional representatives, and other interested individuals have expressed varying opinions on whether the Endowment as currently set up can effectively achieve the goals envisioned by the President. There appears to be general agreement that the United States should play a leading role in strengthening democratic institutions abroad through both governmental and private institutions. Democracy Program staff stand by the recommendations they made that the Endowment and the related institutes should be established. They remain convinced that (1) the private sector rather than a governmental entity can best achieve the desired objectives and (2) business, labor, and the two major political parties are the legitimate entities to carry out the programs envisioned.

While opinion is somewhat divided, individuals both inside and outside government agree that setting up the Endowment as a private rather than government agency was the right decision. These individuals believe that, to be effective, the Endowment's programs should be overt but not too closely identified with the U.S. government. One State Department official voiced the opinion held by others that the Endowment is needed to serve

both as a focal point for promoting democratic forces abroad and as a mechanism to fund activities currently outside the legislative mandates of such agencies as AID, USIA, and the Department of State.

These positive views toward the Endowment, however, are not shared by all. Some individuals, including some members of Congress, have expressed the opinion that existing government and private sector programs are already achieving the stated objectives of the Endowment and that what is needed is simple expansion of these activities rather than a new organization. One USIA official viewed the Endowment as simply another layer of government-financed administration, since its legislation prevents it from conducting activities of its own. Other individuals including some public officials overseas, questioned whether a bipartisan approach to political assistance programs might have been preferable to establishing two separate party institutes.

Some overseas officials voiced concern that the Endowment might become involved in sensitive activities which could place the United States in a difficult stance abroad. In this regard congressional debate over the Endowment's fiscal year 1985 appropriation in May 1984 included discussion over whether reported Endowment involvement in election activities in Panama was appropriate. The labor institute conducting the Endowment-supported activity advised us that the funds were appropriately used to encourage voter turnout and not to support the campaign of any particular candidate as had been charged. Nevertheless, the Endowment Board adopted a resolution in June 1984 prohibiting the expenditure of funds, either by the Endowment or any of its grantees, to finance campaigns of candidates for public office.

CONCLUSIONS

Because support for the Endowment is somewhat divided, we believe that if the Endowment is to be successful it needs to gain credibility during its initial period of operation. One way this can be achieved is by laying a firm foundation for Endowment operations before funding its activities. Formulating program goals, developing plans and procedures, defining criteria for selecting grantees, and establishing funding priorities are basic tasks which should be undertaken before the Endowment and its major grantees fund further activities.

We further believe that the unresolved issues raised in this report will continue to complicate Endowment operations if not addressed. Accordingly, we believe that the newly appointed president of the Endowment and the Endowment Board need to address these issues in consultation with Congress where necessary.

AGENCY COMMENTS AND OUR EVALUATION

The Endowment stated that it fully shares our conclusion that its success depends upon its gaining credibility during its initial period of operation. The Endowment believes that the actions it has taken since its inception reflect its commitment to establishing the responsible, independent institution envisioned by the Endowment's legislation.

With regard to the issues raised in this final chapter, the Endowment stated that its directors, officers, and staff continue to actively address the issues surrounding the effective organization of the Endowment. In commenting on the issue of the Endowment's relationship with the government, the Endowment commented that, as a private organization receiving and making grants with public funds, it faces an unusual challenge: to satisfy the legal obligation to provide Congress with a full accounting of the use of public funds without compromising the essentially private nature of the Endowment. The Endowment believes it can meet this challenge by establishing proper procedures and by including adequate oversight safeguards into the Endowment's grant agreements.

We agree that establishing proper procedures and including oversight mechanisms in its grant agreements are ways the Endowment can provide accountability to Congress for Endowment expenditures. However, we maintain that the issue of the proper relationship between USIA and the Endowment as well as what laws are applicable to the Endowment need to be fully addressed. If the Endowment and USIA are unable to resolve their opposing interpretations of the statutory provisions, they may need to seek clarification from Congress.

In commenting on the issue of the role of the two political party institutes in the Endowment's program, the Endowment pointed out that section 502(b) of the Endowment's authorizing legislation (Pub. L. No. 98-164) clearly makes reference to the two major political parties as effective vehicles for carrying out the purpose of the Act. The Endowment stated its position that the fact that the party institutes were removed as line item grantees does not negate this explicit legislative statement. Accordingly, the Endowment will commit a portion of its funds to the party institutes so long as their proposals specify program plans consistent with the Endowment's purposes and the Board approves them.

We acknowledge that the Endowment's legislation mentions the political parties as vehicles for carrying out purposes of the Endowment. We question, however, whether the party institutes should be considered for funding on the same basis as the two earmarked institutions. The extensive congressional debate related to the role of the parties in the Endowment's program during the fiscal year 1985 appropriation hearings

underscores the need for the Endowment to fully examine this issue in consultation with Congress.

In regard to the future of the Endowment, the Endowment described as inevitable the existence of varying perspectives on whether the Endowment as currently set up can achieve the goals envisioned by the President. The Endowment believes many of the issues will be resolved as the Board adopts more specific policies for implementing initial programs and as the Endowment continues its dialogue with concerned parties, including the four institutes, other American grantees, U.S. government officials, congressional leaders, academic experts, and the Endowment's partners abroad.

We agree that some of the issues related to the Endowment's operations will not be resolved until the Endowment gains experience in administering its program. We believe, however, that the four fundamental issues identified in this chapter will continue to complicate the Endowment's operations if not specifically addressed by the Endowment in consultation with Congress.

RECENT CONGRESSIONAL ACTIONS

GAO completed its review in April 1984. In May and June 1984 Congress considered USIA's fiscal year 1985 appropriation request which included funding for the Endowment. The House, following extensive debate, voted to eliminate from the bill the entire \$31.3 million proposed for the Endowment. The debate included discussion of whether adequate controls exist to ensure funds are not misused and the role of the two political parties in the Endowment's program. The Senate approved a reduced funding level of \$21.3 million but precluded funding of the two political party institutes. A conference committee of the two houses of Congress is expected to work out a compromise. Another proposed bill would give the Endowment an additional \$3 million to implement recommendations of the National Bipartisan Commission on Central America.

We believe the extensive debate over the Endowment's fiscal year 1985 appropriation underscores the need for the Endowment to gain credibility during its initial period of operation. We maintain that the Endowment should complete basic start-up tasks before funding further activities and address the issues contained in this report.

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON D C 20523

May 29, 1984

THE ADMINISTRATOR

Dear ~~Mr. Conahan~~ *Frank*:

We have reviewed the draft report, "Events Leading to the Establishment of the National Endowment for Democracy," enclosed with your letter of May 9, 1984.

Overall the report presents an accurate description of the events that led to the creation of the Endowment. It recognizes the political, appropriations, and timing considerations that were involved in the decision to move forward with the creation of the Endowment rather than wait until the completion of the Democracy Program study. Members of Congress were aware of these considerations and, in fact, were involved in making some of the decisions that resulted in moving along with the creation of the Endowment.

A.I.D. views the democracy study, that was announced by President Reagan, as an ongoing evolutionary process. The study made possible the formation of a strong core of labor, business and the two major political parties in the center of the democracy effort. As a process we see this core group, which is now the Endowment, expanding to other groups in the private sector and resolving the issues which were to be addressed in the feasibility study. While not all the specific tasks were accomplished under the A.I.D. grants, the major objectives were achieved, and we now have in existence an important new program to strengthen democracy overseas.

In the summary of the report, and throughout the report itself, there are references to the study being financed by A.I.D. grants. Although there is a reference to the funds also coming from the President's Unanticipated Needs Account, we believe the two sources of funding should be made clear throughout the report. For example on page ii it is stated that "The study was financed by Agency for International Development (A.I.D.) grants totaling \$400,000." This gives the impression that only A.I.D. funds were used. The use of funds for the Democracy

Mr. Frank C. Conahan
Director
National Security and International
Affairs Division
General Accounting Office
Washington, D.C. 20548

Program from the President's Unanticipated Needs Account was the first time A.I.D. was involved with this account. Since A.I.D. had made the original grant to the American Political Foundation, it seemed appropriate when additional funds were needed for A.I.D. to continue to administer the grant, but with funding from the President's Account. The authorization of these funds by the President indicates the strong support of the Executive Branch in creation of the Endowment.

Sincerely,

A handwritten signature in dark ink, appearing to read 'M. Peter McPherson', with a stylized, cursive script.

M. Peter McPherson

**United States
Information
Agency**

Washington D C 20547

Office of the Director



May 24, 1984

Dear Mr. Conahan:

Thank you for forwarding for Agency review and comment copies of GAO's draft report, "Events Leading to the Establishment of the National Endowment for Democracy".

The U. S. Information Agency has no written comments to submit regarding the report. The Agency does concur with the analysis and conclusions drawn up in the section entitled "Relationship Between USIA and the Endowment".

Sincerely,

Charles Z. Wick
Director

The Honorable
Frank C. Conahan
Director
National Security and
International Division
United States General
Accounting Office

between the Endowment and USIA, since the terms of such an agreement would necessarily establish certain parameters for the operations of the Endowment.

These negotiations were conducted in good faith by both parties, and in a spirit of cooperation and responsibility. Each side realized that this was a unique negotiation for a unique institution, and it took some time to arrive at an understanding. The draft agreement was reviewed by the Board at its March 5 meeting. On March 19, 1984, following formal approval by the Endowment's Board, a grant agreement between USIA and the Endowment in the amount of \$18,000,000 was signed.

During this period, work proceeded to lay the foundations for Endowment operations:

- A presidential selection committee was appointed in January, 1983 by former Endowment Board Chairman Dante Fascell, to find a permanent president for the Endowment. The presidential selection committee, assisted by Heidrick & Struggles, a professional executive search firm, presented its recommendations to the Board on April 3, and Carl Gershman was selected as President.
- Consultants were retained to prepare a proposed staffing pattern and a bibliography of relevant literature, and a public accounting firm was retained to guide the Endowment in establishing its financial systems.
- In March 1984 the Acting President retained a former Foreign Service Officer, with extensive experience in the field, to begin work on program development and assessment.
- An independent consulting firm was retained to develop guidelines for grant agreements and prepare a draft grant agreement to be used as a basis for negotiating final agreements between the Endowment and its potential grantees.

In response to both the USIA/NED grant agreement and the direction of the Board at its April meeting, the Endowment undertook the following tasks in preparation for the June 8th Board meeting:

- Preparation of a broad conceptual paper, setting forth a fundamental perspective on the Endowment's role within the broad context of public and private efforts to promote democracy;

- Preparation of statements explaining the difference between the roles of the Endowment and USIA, and also explaining how the NED's efforts would assist existing private sector efforts to promote democracy;
- Development of detailed grant review and selection criteria, which include provisions for external review of proposals; and
- Development of procedures for monitoring and evaluation of grants approved by the Endowment Board.

These tasks parallel the steps suggested in the concluding section of the GAO draft report as those most basic and important to the successful organization of the Endowment. In short, the actions of the Endowment to date reflect its commitment to establishing the responsible, independent institution envisioned by the NED Act.

The fact that the Endowment is a private organization that receives and makes grants with public funds poses an unusual challenge: to satisfy the legal obligation to provide Congress with a full accounting of the use of public funds without compromising the essentially private nature of the Endowment. We are confident this challenge can be successfully met by establishing the proper procedures and by writing all the necessary oversight safeguards into the Endowment's grant agreements.

We regard the GAO draft report as a fair and balanced assessment of the initial challenges confronting the National Endowment for Democracy. We hope the attached list of specific clarifications of points made in the draft report will be helpful as you prepare your final comments.

Sincerely,



John Richardson
Chairman

Attachments

Items of clarification:

Chapter 3

(1) Page 31: The allocation of funds for FY84 (\$18,000,000) is a broad NED budget plan. Disbursement of those funds is contingent upon presentation of program proposals which meet the standards established by the Board.

(2) Page 34: The NED Act (Section 502 (b)) clearly makes reference to the two major political parties as effective vehicles for carrying out the purposes of the Act. The fact that the Party Institutes were removed as line item grantees during final consideration of the authorization bill does not negate this explicit statement. As mentioned above, the actual disbursement of funds is in all cases contingent on approval by the Endowment Board of grant proposals specifying program plans consistent with the purposes of the legislation.

(3) Page 39: We would like to note that at the time of the interview the Executive Director-designate of the Republican Institute was serving as Deputy Director of the Republican National Committee's office of International Programs. The individual in question left the RNC when the Republican Institute opened its office, and there is no overlap between these two positions. Another individual has since assumed the Deputy Directorship of the RNC's office of International Programs.

Chapter 4

(1) Page 42: We would like to note that the fact that "varied perspectives exist on whether the Endowment as currently set up can effectively achieve the goals envisioned by the President" is, in the Endowment's view, inevitable and not an unhealthy sign. The NED Act was passed by Congress, which itself certainly had varied perspectives as to how President Reagan's suggestion for an Endowment could best be implemented and function. The steps already noted that were taken in preparation for the June 8 Board meeting should clarify some of the main issues raised here. Inevitably, however, many of these issues will be resolved only as the Board adopts more specific policies for the implementation of initial programs; and, not least, as a result of our ongoing dialogue with concerned parties, including the four Institutes, other American grantees, U.S. Government officials,

Congressional leaders, academic experts, and the Endowment's partners abroad. This process of clarification is both natural and healthy.

(2) Page 47: The Endowment intends to continue its regular consultation with relevant government agencies as appropriate to the functioning of a private organization dedicated to the pursuit of U.S. national purposes.

(3) Page 49: The Endowment, in implementing the provisions of authorizing legislation, will commit a portion of its funds to the international programs of the two major American political parties.

REVISIONS

Middle p. 46

does not plan routinely to monitor Endowment activities but will concern itself with those activities which relate to foreign governments. Although there were some preliminary discussions about the possibility of secunding a person from the government's foreign affairs community to serve on the Endowment staff on a rotational basis, the Endowment Board at its April 3 meeting decided against establishing that relationship.

Middle p. 47 - Insert after "...feasibility of proposed projects."

State's Director of Public Diplomacy believes the potential sensitivity of Endowment activities reinforces the need for a systematic mechanism for close consultation with the government. .

NATIONAL ENDOWMENT FOR DEMOCRACY

BOARD OF DIRECTORS

John Richardson
Chairman
Frank J. Fahrenkopf, Jr.
Vice Chairman
Louis Martin
Secretary

Polly Baca
William E. Brock III
LeGree Daniels
Danie B. Fascell
Orin G. Hatch
Lane Kirkland
Charles T. Manatt
Olin Robison
Albert Shanker
Sally Shelton
Charles H. Smith, Jr.
Jay Van Andel

Carl Gershman
President

June 8, 1984

Mr. Frank C. Conahan
Director
National Security and International
Affairs Division
General Accounting Office
Washington, D.C. 20548

Dear Mr. Conahan:

As a result of actions taken by the Board of Directors of the National Endowment for Democracy at their meeting last Friday, June 8, I would like to add an addendum to the Endowment's response to the GAO draft report.

The Board adopted a resolution instructing the President to implement an openness policy, according to which all proposals approved by the Board, grant agreements between NED and its grantees, and other official documents of the Endowment are available to the public upon request.

The Board also adopted a resolution prohibiting the expenditure of funds, either by the Endowment or any of its grantees, to finance the campaigns of candidates for public office. The language of this resolution will be added to the grant guidelines and selection criteria, also reviewed by the Board on June 8.

In other actions, the Board of Directors reviewed the basic outlines of a strategy for a long-term program for democracy and approved a model grant agreement to be signed between the Endowment and its grantees.

The grant agreement incorporates standard grant procedures regarding oversight, financial accountability, and reporting requirements.

The Endowment Board is confident that we are off to a sound beginning. I appreciate your consideration of this additional information.

Sincerely,

A handwritten signature in black ink, appearing to read "John Richardson". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

John Richardson
Chairman

June 8, 1984

Mr. Frank C. Conahan
Director
National Security and
International Affairs Division
U.S. General Accounting Office
Washington, DC 20548

Dear Mr. Conahan:

A number of concluding observations in the General Accounting Office study "Events Leading to the Establishment of the National Endowment for Democracy," raise understandable concerns which the Endowment must consider over time.

We are representatives of key private groups that helped to put together the Democracy Program study recommending the Endowment. Institutes tied to our organizations are designated to receive substantial support from the Endowment. Given this, we think there are a number of historical points that would make useful additions to the report. We are addressing ourselves only to the first two sections of the report since these deal with the work of the Democracy Program. The Endowment itself is likely to comment on those aspects of the report applying to it.

Participation:

The report suggests in a number of places that consideration of relevant issues would have been broader if the staffing of the study had included sectors other than business, labor and the two political parties.

The four groups mentioned were decisive in creating the study in the first place because of their strong institutional base, the fact that they clearly represent major sectors in American life and because their responsible leaders could be identified with relative ease. In fact, the Democracy Program did consider broadening both the agenda and staffing for the project, but felt that other sectors that might be included were not structured to be held accountable in the same way, at least at the beginning. Business, labor and the two parties were those who had promoted the idea historically, and Congress wanted their views. Besides, it was not as easy to fairly identify who speaks for other American sectors like religion or the media.

The groups selected to make recommendations were the same ones who would be responsible for much of the program in the end. And while this was not a conventional way to design a "study", it certainly was more likely to result in recommendations with built in insurance that they could and would be carried out.

Even though the four groups nominated core staff, there were other staff and consultants and the Endowment structure recommended room for program growth into other sectors. The four primary groups and the Democracy Program Board as a whole conceived of it as an organic institution which ultimately would broaden the spectrum of those involved.

GAO COMMENT: Our point was not that other interest groups should have been represented on the study but rather that inclusion of non-affiliated researchers might have prompted more consideration of how other public and private sector organizations might have been involved in the Endowment's program. Only two consultants not associated with labor, business or political parties worked for the study more than a few days; most of the remaining consultants participated in the Democratic Electoral Task Force which concluded that there was no logical reason why the four institutes should carry out the activities they proposed.

Congress may have wanted to hear how business, labor, and the parties would be involved in the Endowment's program but probably not to the exclusion of other participants. We agree that the structure of the Endowment allows for expansion to other private sector groups through discretionary funding. Because funds for business and labor are earmarked, however, the share of funding for other groups can be increased only if (1) Endowment expenses or funding for the political parties is reduced or (2) the Endowment receives a larger appropriation. For fiscal year 1984, \$2.3 million of \$18 million was allocated to cover Endowment expenses and grantees other than the four major Institutes.

Sequence of Events:

The study makes observations suggesting that the haste of producing legislation reordered a proper sequence of events and left certain tasks uncompleted.

Having a clean final document in advance of legislative consideration may have been a preferred way to proceed, but the Democracy Program effort was not a conventional study. The issues it was dealing with were not new, and the questions it raised inevitably and necessarily demanded shaping by the political process.

First, as the GAO report itself points out, the possibility for such an effort had been raised before, as far back as 1967. The President had spoken about it. It had been given considerable attention in the press, and at least some of the major entities involved, particularly labor, already had had extensive experience using public funds to promote private sector work--an experience with which the Congress, judging from comments made by many of its members, was already familiar.

Second, key subcommittee members who dealt with the legislation early on were familiar with the work of the study in advance of the publication of the interim report. Congressman Dante Fascell, then Chairman of the Subcommittee on International Operations, also sat on the Democracy Program's Board. He was in a position to inform subcommittee members of the work of the study and did so. Senator Christopher Dodd was also on the Democracy Program's Board and as a member of the Senate Foreign Relations Committee was able to play a similar role on the Senate side. Indeed, the interim study was available in time for consideration before the Endowment legislation was considered by the full Congress. The report's criticism of the amount of time the staff spent explaining the study's work on the Hill does not support the conclusion that Congress was unaware of what it was doing in passing Endowment legislation.

Next, the structure issue was taken up first, to be sure, and did receive considerable attention. This was basic because the private character of the effort being proposed was foremost in the minds of those who created and monitored the study. The major groups involved knew even before the study had begun that without agreement on a structure to preserve private control and autonomy, the work that any of them might do with the funds would be compromised in the eyes of those they were assisting abroad. It was logical, then, that the study agenda flowed naturally, both in sequence and in form, from an early recommendation on structure.

Finally, the idea that a fully finalized program delineating "projects" and "activities" could and should have been produced in advance of legislation misjudges the delicacy with which private sector work abroad must be conducted and compromises principles of operation by which the major participants intended to proceed. All, for example, had agreed that programs funded with Endowment support should be initiated and requested by the recipients, not superimposed on them by American interests.

The necessary contacts, discussions, and commitments initiated from abroad could hardly have been made in advance of the rather tenuous proposition that Endowment legislation would pass. Nor would it have been appropriate for Congress as a public legislative body to be seeming to legislate over such specific private arrangements.

Other than the broad agendas proposed by the four private groups the structure which allowed for these arrangements to proceed was indeed the most important agenda item for the Democracy Program to take up. Congress did not and should not have presumed to be passing public judgment on the specifics of the private sector initiatives if there was to be any credibility at all for the idea that the Endowment was basically a privately-determined effort.

GAO COMMENT: Although we agree that the Democracy Program was not a conventional feasibility study, the initial grant agreement suggests that it was intended to be. (See related GAO comment in next section.) While some individuals might have understood the starting point for the study and been informed of its progress, the congressional debate which occurred in creating the Endowment and which has carried over to the fiscal year 1985 appropriation hearings indicates that it is unclear to some how the Endowment will function and what it will do.

We agree that programs funded by the Endowment should usually be proposed by those organizations which will carry them out. We were not suggesting that the study group should have developed specific programs for the Endowment but were simply stating the justification for the second grant; that is, that the researchers would develop procedures, bylaws, and potential program designs and would translate the research into specific program goals for the Endowment and institutes. We found little evidence that these tasks were accomplished under the grant.

Existing Government Programs; Government Involvement:

The study refers repeatedly to a failure on the part of the Democracy Program to consider sufficiently how government would relate to the program.

All of these issues were considered by the study staff and some participants came to them with extensive experience. Some of them are not discussed in the report partly because they will require considerable thought and deliberation over time.

What the GAO study overlooks in raising these concerns is the weight of the Democracy Program's most basic premise, namely that the Endowment effort was to be first and foremost, privately controlled. It was essential that this be the case if Endowment programs were going to be credible as private programs. In other words, it was more appropriate to create a new private entity than to think about extending the jurisdiction of some existing agency. Besides, the expertise on how to carry out such programs does not exist now in government agencies. Nor do they have the necessary private contacts in the field.

One event demonstrating this concern for independence was the Democracy Program's decision not to accept a Presidentially appointed Board for the Endowment (p. 18). It also explains why the recommended Endowment legislation specifically says that "the grant agreement may not require the Endowment to comply with requirements other than those specified in this title" even though it is a part of USIA's authorizing legislation.

The Democracy Program hardly would have been maintaining a consistent view of the value of privately inspired programs and agreements if it had recommended a substantive agenda from a series of Embassy-written cables. Besides, as has been pointed out earlier, if such an agenda is to be truly private, it hardly could have been worked out with private groups abroad in advance of the legislation's passage. Other issues raised by the cables (consultation, duplication with existing government-sponsored programs) await further refinement, but were not thought to have determining weight with respect to whether or not the Endowment should be created. These premises were understood by the State Department and USIA and nothing in their written comments submitted to the Congress suggested any disagreement.

GAO COMMENT: We recognize that historically American political leaders have discussed the need for a non-governmental mechanism to support democratic institutions abroad. We question, however, whether it was appropriate for the study group to begin its research based on the premise that any new entity would be private. The AID grant agreement specified that the feasibility study would recommend alternative ways democratic forces could be supported through on-going and/or new mechanisms. No assumptions were to have been made on the desirability of any particular program or structure.

With regard to the contention that the government lacks expertise to carry out the envisioned programs, it should be noted that government entities often make extensive use of the private sector to implement their programs, just as the Endowment will do.

We also disagree with the contention that staff consideration of embassy viewpoints would have been inconsistent with the aim of designing "privately-inspired" programs. We believe the issues raised in the cables including whether proposed activities might duplicate existing ones were important and should have been considered in deciding whether a new organization should be created.

Scope of Research:

The GAO study concludes that many research questions never were taken up.

For all the reasons already mentioned, the thrust of the Democracy Program's study concentrated on the role of the major institutions in doing private work abroad. Therefore, the task force reports of labor and business, for example, became central to the effort. Approaches that might have matched the State Department's organization pattern (country, region) or emphases having to do with less coherently structured groups (religion, media) ultimately received less attention. Part of this refinement

in the research agenda happened after the study began. It was appropriate owing to the assumption that the four major participants would bear responsibility for carrying out programs. Arguments justifying this have already been made.

Beyond this and a number of other observations made earlier bearing on the above points, some conclusions cited in the GAO report about research methods seem not to be warranted. For example, existing public and private U.S. and western country programs were dealt with on a select and focused basis (the German Foundations, public support of European labor programs, etc.). Interviews with a number of foreign leaders are on record in the Democracy Program files. Numerous trip reports are evidence of these interviews. The question of how to encourage domestic pluralistic forces in totalitarian countries was considered though it was thought inadvisable to include discussion of it in the report.

Some issues on the original American Political Foundation research were not addressed, to be sure, because, as is the case with many research efforts, the idea of what constitutes a relevant agenda can change. This happened during the course of the Democracy Program study for all the reasons cited above, and should make it no less valid.

GAO COMMENT: We agree that the idea of what constitutes a relevant agenda for a study can, and often should, change during its conduct. We believe, however, that some of the issues initially planned to be examined during the study were important to an understanding of whether a new organization was needed and how it would function. For example, a critical analysis of past and current U.S. efforts supporting democratic forces abroad might have helped to more clearly define the role of the Endowment within this context. Similarly, an evaluation of the implications of organized overseas activities by the two political parties--a significant new development in U.S. foreign relations--might have provided answers to the questions which have been raised over their role in the Endowment's program. Although the comment is made that the task force reports were central to the thrust of the study, task force reports to explain what activities the political party institutes might conduct were not prepared.

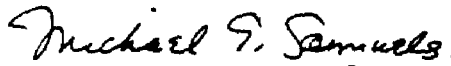
We believe that the issues mentioned by the President in his speech before the British Parliament and the questions raised by the American Political Foundation were important and should have been examined more fully. Finally, we maintain that completion of all the research before the legislation to create the Endowment was introduced would have been a better sequence for the Democracy Program study.

Conclusion:

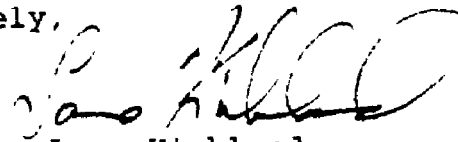
Many of the questions raised by the GAO report are good ones but could not have been answered completely in advance of the Endowment's creation. We believe they will be addressed as the work of the Endowment proceeds. In a sense then, the Democracy Program's work was not a conventional research effort. The real question is did it shed enough light on problems and possibilities to warrant the creation of the National Endowment for Democracy. We maintain that it did. We, unlike other researchers, will have to bear responsibility for being right on that point since our

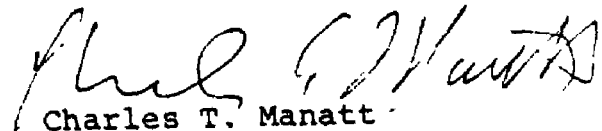
institutions are the ones that will be tested. We will bear private responsibility for the use of public funds. Anyone examining this GAO report should bear that in mind.

Sincerely,


Michael A. Samuels
Vice President, International
U.S. Chamber of Commerce


Frank J. Fahrenkopf, Jr.
Chairman
Republican National Committee


Lane Kirkland
President
AFL-CIO


Charles T. Manatt
Chairman
Democratic National Committee

NATIONAL ENDOWMENT FOR DEMOCRACY

BOARD OF DIRECTORS

John Richardson
Chairman
Frank J. Fahrenkopf, Jr.
Vice Chairman
Louis Martin
Secretary

Paula Baca
William E. Brock III
LeGree Daniels
Dante B. Fascell
Orin G. Hatch
Lane Kirkland
Charles T. Manatt
Olin Robison
Albert Shanker
Sally Shelton
Charles H. Smith, Jr.
Jay Van Anel

Carl Gershman
President

June 5, 1984

Mr. Frank C. Conahan
Director
National Security and International
Affairs Division
General Accounting Office
Washington, D.C. 20548

Dear Mr. Conahan:

On behalf of the National Endowment for Democracy, I am pleased to respond to the Draft Report for the U.S. General Accounting Office entitled "Events Leading to the Establishment of the National Endowment for Democracy." Since the Endowment was only incorporated on November 18, 1983, these comments address only Chapter 3, Status of Endowment and Institute Operations, and Chapter 4, Issues Affecting the Future of the Endowment.

The conclusions of the draft report are shared fully by the National Endowment for Democracy Board of Directors: "To be successful the Endowment needs to gain credibility during its initial period of operation" by laying a firm foundation for Endowment operations.

Indeed, the Endowment's directors, officers and staff are actively addressing, as they have been for several months now, the many important issues surrounding the effective organization of the Endowment so that it may successfully carry out its stated mission: to serve as a focal point for private sector programs designed to promote the growth of democratic values and institutions around the world. We believe the Endowment is attending to its organization in a prompt and responsible manner. A brief chronology will demonstrate this:

The National Endowment for Democracy was incorporated on November 18, 1983. The first board meeting was held on December 16, 1983, at which time the terms of directors were set, officers elected, and the bylaws adopted. The Acting President and General Counsel were instructed by the Board to turn to the negotiation of a grant agreement