

OVERSIGHT OF THE NATIONAL ENDOWMENT FOR DEMOCRACY

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HEARINGS

BEFORE THE
SUBCOMMITTEE ON
INTERNATIONAL OPERATIONS
OF THE
COMMITTEE ON FOREIGN AFFAIRS
HOUSE OF REPRESENTATIVES

NINETY-NINTH CONGRESS
SECOND SESSION

MAY 14 AND 20, JUNE 11, 1986

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OVERSIGHT OF THE NATIONAL ENDOWMENT FOR DEMOCRACY

WEDNESDAY MAY 14, 1986

HOUSE OF REPRESENTATIVES,
COMMITTEE ON FOREIGN AFFAIRS,
SUBCOMMITTEE ON INTERNATIONAL OPERATIONS,
Washington, DC.

The subcommittee met at 10 a.m., in room 2255, Rayburn House Office Building, Hon. Dan Mica (chairman of the subcommittee) presiding.

Mr. MICA. The subcommittee will come to order. I understand we have permission from the minority to proceed.

Let me just start out by offering for the record a statement from our ranking minority member, Ms. Snowe. She will be here later, but asked that we submit her opening statement in the record.

[The prepared statement of Ms. Snowe follows:]

Mr. Chairman, I am pleased that we are holding oversight hearings now on the National Endowment for Democracy. I originally opposed the creation of NED three years ago. But since becoming ranking Republican on this subcommittee, I have had the opportunity to study many of the valuable programs that NED has supported in the last few years. In these days of budget stringency, however, Congress must make some very difficult choices among a number of valuable programs.

Despite the value of many programs supported by NED, there is no question that the endowment had remained controversial. Some press reports, of course, have been overstated. But many of the controversies point to a larger problem with NED's loose oversight and limited program evaluation, particularly toward its core grantees.

In last year's State Department authorization bill, we made a number of modifications in the legislation governing NED. Through USIA, we brought NED under the Freedom of Information Act; we required greater coordination between NED and the Department of State; and we greatly expanded the role of discretionary funding in NED's overall program. We look forward to the comments of our witnesses on how these changes are working.

I hope that these hearings will not only help NED understand what directions it must take, but will also help us at the subcommittee establish criteria for future evaluation of NED. Judging from both the House and Senate budget resolutions, we will have a number of very difficult decisions to make during next year's reauthorization.

I look forward to our witnesses' comments.

Mr. MICA. Also, I will submit my opening statement for the record, and will not read at all except to say that we are pleased to have this hearing on the National Endowment for Democracy.

Our witnesses will be Joan McCabe, Associate Director of the Security and International Relations Group, with GAO; she is accompanied by Mr. Toureille, who is an evaluator in the division.

To sum up what my written statement says here is we want to know what in the world is going on with NED. We would like to

get your comments on this report, and maybe ask you a few questions about it.

As it says somewhere in this statement, and I think my staff took it out, the National Endowment for Democracy is no stranger to controversy; that is correct.

We are going to try to get into a few questions to find out what these controversies are, and how we can avoid some of them. But with that, I will ask you to proceed.

Let me just ask you to withhold for a moment.

We also have a request here from my colleague, Congressman Brown of Colorado, and he asked that a list of 10 questions be submitted for the record for you to respond to in the event that we don't cover them in hearing.

So at this time, without objection, I will submit those for the record.

[Mr. Mica's prepared statement follows:]

PREPARED STATEMENT OF HON. DAN MICA

I would like to welcome our witnesses here today to talk about the National Endowment for Democracy. First we will hear from the General Accounting Office, which will be represented by Ms. Joan McCabe, Associate Director of the Security and International Relations Group, and Mr. Pierre Toureille, Evaluator, Following the GAO Testimony, we will hear from: Mr. Anthony Gabriel, Inspector General of USIA, Mr. Thomas Harvey, General Counsel of USIA, and Ambassador Gerald Helman, Deputy of the Under Secretary for Political Affairs, Department of State.

I am especially pleased to welcome representatives of the General Accounting Office to testify before the subcommittee today regarding the National Endowment for Democracy. I am aware of the long hours they have spent following the trail of endowment grants and in evaluating the procedures followed by endowment in their grant making activities.

I look forward to hearing the results of your study and, especially, your recommendations to the endowment.

The National Endowment for Democracy is no stranger to controversy. I request that the GAO perform this audit because of the very nature of the endowment and because of questions that have been raised in the press, by Members of Congress, and in my own mind. The Congress, and indeed my own subcommittee, has acted to place restrictions on the endowment to inspire the confidence that it would grow as an efficient and nonpartisan organization. The endowment itself has also taken actions to tighten its internal controls. I believe that these actions have helped the endowment to evolve in a new direction—though perhaps a direction different than that envisioned when NED was founded. It is imperative that NED continue this process of growth in order to inspire confidence in its ability to oversee and evaluate its sponsored programs.

The endowment is a young organization. It is natural that such a new, innovative approach to institution building would be a subject of close scrutiny. I am hopeful that today, we can put to rest some of the concerns which have been raised regarding endowment activities, and to begin a process of management reform within the organization.

Questions concerning the National Endowment for Democracy

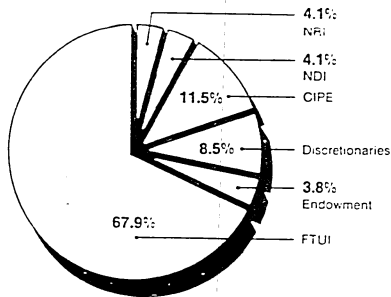
1. What percent of its funds has the National Endowment for Democracy given to groups affiliated with members of the NED board?
2. Are members of the NED board present when proposals of their own groups are discussed and voted on? Do they know how members representing other groups voted on their grant? Do they participate in the discussion or in any way advocate that their own groups receive funding? Do the transcripts of NED board meetings provide answers to these questions?
3. Have grants to groups represented on the board received the same care in monitoring, evaluating, and checking financial reports as grants to groups not on the board?
4. Legally, NED is a grantee of the U.S. Information Agency. What steps has USIA taken to ensure that funds provided through NED to U.S. and foreign groups have been used in accordance with the statutory purposes of NED, federal guidelines for grants to private groups, and the terms of grant agreements? Has NED provided USIA with documents and financial records in a timely manner to facilitate USIA oversight?
5. NED gave grants to an anti-Mitterand trade union and a student group with links to an outlawed paramilitary organization. NED subsequently suspended the grant to the student group pending an investigation. Has NED conducted an independent investigation of that grant? Have financial records been produced that document who received the funds, for what activity, and what the funds were actually spent for? Were funds provided pursuant to a written grant agreement?
6. At the time NED made the grant to the French student group, was the NED board told the name of the group, its history and affiliations, and the dollar amount it would be receiving? Was the State Department or the U.S. embassy in Paris informed of these grants?
7. What percent of funds of NED and the four institutes go to administrative overhead? Do these figures include the administrative overhead of subgrantees?
8. NED responded to La Prensa's request for help in paying its Miami supplier by funneling \$100,000 through Prodemca. Did La Prensa suggest that NED make the grant directly to it? How much overhead to Prodemca would a direct grant have saved? Did channeling the funds through Prodemca cause any embarrassment to La Prensa?

9. What percent of NED's funds have been given to the labor institute? What other federal agencies fund AFL-CIO's international activities? What is the total dollar amount of this funding? Does NED fund any labor activities that could have been funded by other government agencies? In what ways do labor activities funded by NED differ from those funded by government agencies? Are the NED-funded activities subject to the same evaluating and oversight as activities funded by government agencies?

10. Have NED programs been effective in promoting democracy? Is putting large sums into countries that are already democratic the most effective way to promote democracy?

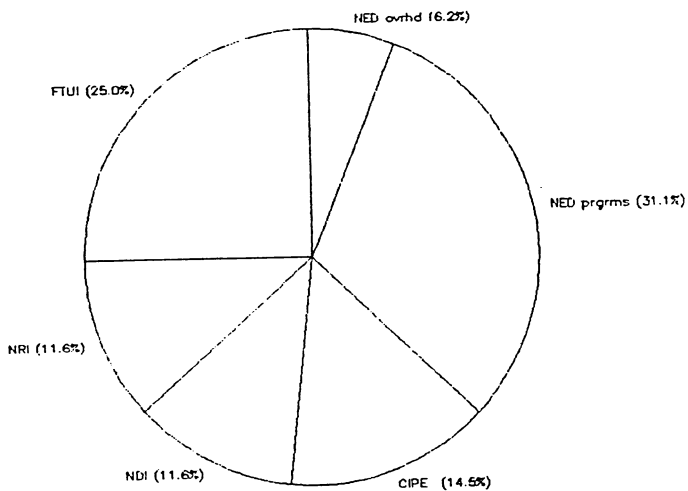
1. For fiscal years 1984 and 1985, the Endowment awarded about 88 percent of its funds--\$32 million--to FTUI, CIPE, NDI, and NRI. Individuals affiliated with these four core grantees were members of the Endowment board. The amounts awarded to FTUI and CIPE resulted from congressionally-mandated earmarks in the Endowment act. (Although the amounts earmarked for FTUI and CIPE in the act total \$33.6 million, the Endowment actually awarded these two groups \$29 million for the two years in which the earmarks were applicable.)

The following chart shows the distribution of the Endowment's fiscal year 1984-85 funds by organization.



In January 1986, the Endowment approved fiscal year 1986 funding targets for its grantees. These non-binding targets allocated about 51 percent of the Endowment's fiscal year 1986 funds for FTUI, CIPE, and NDI. (In early 1986, one Endowment board member resigned his position with NRI. As a result, there are now no individuals formally affiliated with NRI on the Endowment's Board.)

The following chart depicts the anticipated distribution of the Endowment's fiscal year 1986 funds by organization.



2. The Endowment's by-laws state that "Any board member who is an officer or director of an organization seeking to receive grants from [the Endowment] must abstain from consideration of and any vote on such grant. This provision shall not prevent any director from supplying to the Board any factual information it may seek respecting such grant proposal."

The transcripts and minutes of the Board's executive sessions that have been made available to us indicate that Board members affiliated with Endowment grantees have not voted on their organizations' proposals. These documents do not indicate whether such members leave the room during the votes on their organizations' proposals. On one occasion that we observed, these members remained during votes. The transcripts that we reviewed show that Board members affiliated with CIPE and FTUI answered questions from other board members at meetings.

3. As noted in our testimony before the Subcommittee, the Endowment was particularly reliant on the four core grantees to select, monitor, and evaluate their own programs. The Endowment's limited involvement in their activities appears to have stemmed from its unique relationship with the four core grantees. A strongly held view within the Endowment--reinforced by the earmarks discussed above--was that it was intended to function as a funding conduit to the core grantees. Endowment staff indicated that their efforts were focused on the non-core (discretionary) grantees.

4. During 1984 and the first half of 1985, the Endowment and USIA had not reached a common understanding regarding the scope of USIA's oversight responsibilities. However, in June 1985, the Comptroller General issued a decision on the matter which found that USIA had essentially the

same oversight rights and responsibilities as any other Federal grantor agency. Later in 1985, the Congress expressly gave USIA the right to audit the Endowment's financial transactions. USIA officials met with us and agreed to await the completion of our audit before initiating their own. In April 1985, at the request of Rep. Mica, USIA conducted an audit of the Endowment's grant to PRODEMCA. We are not aware of whether the Endowment provided USIA auditors with PRODEMCA-related documents in a timely manner. It is our understanding that USIA has begun planning a broader review of the Endowment.

5. FTUI granted \$575,000 in Endowment funds to the Union Nationale Inter-Universitaire (UNI) for fiscal years 1984 and 1985. As of mid-May 1986, the Endowment's inquiry regarding UNI is still in progress. The Endowment's Director of Programs, who is conducting the inquiry, informed us that he has reviewed UNI files at FTUI headquarters in Washington DC. In April 1986, he also met with UNI and AFL-CIO officials, and other knowledgeable individuals, in Paris, France.

On December 27, 1985, following a number of stories in the media concerning this and other programs in France, FTUI provided the Endowment with a special report on its French programs. The report indicated that of the \$575,000 granted to UNI by FTUI, \$502,983 had been disbursed by August, 1985. We are not aware of the types of financial information that may have been requested during the Endowment's inquiry to support this disbursement figure.

The Endowment transferred funds to FTUI (including those funds destined for UNI) pursuant to written Endowment-FTUI grant agreements.

FTUI transferred funds to UNI without written grant agreements.

6. FTUI's proposals to the Endowment Board did not mention UNI by name or specify how much of FTUI's European program funds would be allocated to UNI. FTUI's first proposal to the Endowment in April, 1984 stated that, in addition to friendly trade unions, the AFL-CIO was "interested in supporting a number of European-based organizations that were more indirectly concerned with trade union freedoms. Among them are: an organization of professors and students promoting democratic efforts in the French university system;..." A "revised and amplified" FTUI proposal submitted in June 1984 referred to "an inter-university national union of professors and students which promotes democratic views in the French university system. It publishes pamphlets on a number of subjects which defend Western values and interests, and has plans for expanding activities using a variety of consultants abroad." FTUI's fiscal year 1985 proposal of November 21, 1984 noted that "One trade union-like organization of professors and students which operates in the French University system has received FY '84 assistance from FTUI. It has developed a comprehensive program to counter propaganda efforts of powerful left-wing organizations of professors."

During our review, we did not obtain transcripts of the executive sessions of the particular Endowment Board meetings at which the FTUI grants containing the UNI funds were approved. Therefore, we do not know whether the Board was verbally provided with additional information regarding UNI or its Endowment-funded activities before approving the grants to FTUI.

In response to our queries regarding Endowment-funded FTUI activities in France, the U.S. embassy in that country informed us that it had no direct involvement in these programs and would be unable to provide us with any information from its staff's own knowledge. The embassy stated that it was "for all practical purposes unaware of the particular Endowment-funded activities in France and elsewhere in Europe that are being administered from the AFL-CIO Paris office. The embassy's understanding of these activities in terms of their objectives, methods, status, funding, and recipients is limited to the information contained in the NED 1984 annual report", of which it had received a copy.

We reviewed the 1984 annual report of the Endowment, published in late 1984, and found that it described the UNI program in the following terms. "In France, a trade union-like organization for professors and students has developed a comprehensive program to provide an effective counterweight to the propaganda efforts of left-wing organizations of professors active within the university system. FTUI has supported a series of seminars, and the publication of posters, books, and pamphlets on such topics as 'Subversion and the Theology of Revolution' and 'Neutrality or Liberty.' Funding has also been used for essential staffing and office costs."

In its cable to us, the embassy also stated that the director of the AFL-CIO's Paris office "occasionally mentions projects but does not elaborate beyond what is contained in the public record." The embassy added that its understanding of the arm's length relationship between embassies and the Endowment, a relationship it approved of, has kept it from making further inquiry. *Is it ASKED TO ELABORATE*

We are not aware of any discussions that may have occurred in Washington between the Department of State and Endowment or FTUI staff regarding the UNI program at the time of its funding.

7. According to the Endowment's records, as of September 30, 1985, 3.8 percent of the fiscal year 1984 and 1985 funds it received were budgeted for the Endowment's administration. The Endowment plans to allocate 6.2 percent of its fiscal year 1986 funds for its administration. Endowment records indicate that as of September 30, 1985, 10.1 percent of the fiscal year 1984 and 1985 Endowment funds awarded to FTUI had been budgeted for administration. For CIPE and NRI, the percentages budgeted for administration were 21.9 and 44.4, respectively. As of December 31, 1985, 54 percent of NDI's fiscal year 1984 and 1985 Endowment funds were budgeted for administration. The figures given above do not include subgrantees' administrative budgets.

8. We did not review the Endowment's grant to PRODEMCA for La Prensa. USIA has recently completed an audit of this grant.

9. Almost 68 percent of the Endowment's fiscal years 1984 and 1985 funds were awarded to FTUI. FTUI was granted \$11 million for 1984 (\$2.8 million less than had been earmarked by the Congress) and \$13.8 million for 1985. FTUI and other AFL-CIO officials informed us that the AFL-CIO's international activities also receive funds from AID and USIA. We did not obtain extensive data regarding these funds during our review of the Endowment's program. Information provided by FTUI and AFL-CIO officials indicate that the value of the AID and USIA grants to AFL-CIO groups for a

given recent year can be estimated as totalling roughly \$19 million. About \$18 million of this total was awarded to the three AFL-CIO regional institutes by AID.

During our review, we found indications that some Endowment funds were used to support some types of labor projects that apparently could have been funded by AID (assuming that sufficient AID funds were available). For example, Endowment funds supported some development-related projects. AFL-CIO officials informed us that these projects would contribute to strengthening free trade unions and help promote democracy. AFL-CIO officials also informed us that Endowment funds were used to support types of programs that AID would not fund, such as voter education programs.

In June 1985, the Comptroller General issued a decision which found that USIA has essentially the same oversight rights and responsibilities regarding the Endowment's programs as any other Federal grantor agency. Later in 1985, the Congress expressly gave USIA the right to audit the Endowment's financial transactions. The scope of our review did not include an assessment of how AID had implemented its oversight rights and responsibilities towards the three labor institutes.

10. We did not evaluate the effectiveness of Endowment programs in promoting democracy during its first two years of existence. The Endowment act does not restrict Endowment-funded programs to non-democratic countries, and the Endowment's statement of principles and objectives notes that in "countries where democracy exists but is not firmly established, the task will be to enhance the credibility and efficiency of democratic governance and to strengthen the private-sector institutional and cultural framework."

Mr. MICA. Mr. McCain.

Mr. McCAIN. Mr. Chairman, as you know I was very concerned, to say the least, about some of the activities of NED, so after going through the hearings last year, I have grown to understand and appreciate a great deal of what they are attempting to do. I also was pleased that some of the amendments that we passed last year concerning the Freedom of Information Act and increased adherence to allowing others besides members of the board to compete for grants from NED have been implemented.

I am pleased to note that the GAO, overall, approves of the progress that NED has made in the direction which I believe this committee would like. I feel that they fulfill a definite need.

I believe that, the record that they are compiling—we can be proud of—which is encouraging the implementation of democratic institutions on both the right and the left, particularly in this hemisphere and throughout the world. I am pleased that we have the kind of scrutiny that you have implemented. Questions like those that are submitted by Congress Brown, I think, will help all of us as members of this committee, and Congress, to understand what NED is doing, and I am becoming more and more supportive of over time. Thank you.

Mr. MICA. I thank the gentleman. I would like the record to note that the gentleman from Arizona did, indeed, direct this committee on a number of amendments that were ultimately incorporated in the law that governs NED. He has been most helpful; I appreciate that.

Ms. Snowe has joined us.

I have submitted your statement for the record. Would you like to say anything?

Ms. SNOWE. No, thank you, Mr. Chairman. I appreciate you submitting my statement for the record. I am pleased that we are having a series of hearings on NED because I think it is absolutely essential to set the record straight, and understand what criteria we need to evaluate the program and, frankly, whether or not to continue its existence. A few years ago I was not a supporter of NED. I have become a convert in recent years, and I believe that the modifications submitted by the gentleman from Arizona were very essential in improving the direction of the program. But we need to look at how to further improve the program, the direction it is taking, and I appreciate the GAO evaluation of the program because I think it will assist this committee in terms of what we do for now and into the future in seeking reauthorization.

Thank you, Mr. Chairman.

Mr. MICA. Thank you.

With that, Ms. McCabe, please proceed.

STATEMENT OF JOAN M. McCABE, ASSOCIATE DIRECTOR, SECURITY AND INTERNATIONAL RELATIONS GROUP, NATIONAL SECURITY AND INTERNATIONAL AFFAIRS DIVISION, GOVERNMENT ACCOUNTING OFFICE, ACCOMPANIED BY PIERRE R. TOUREILLE, EVALUATOR

Ms. McCABE. We are pleased to be here today to discuss our recent work on the Endowment. I have a detailed statement that I

would like to submit for the record. If I may, I will highlight it right now.

Mr. MICA. That would be excellent.

Ms. McCABE. Overall, in our review we found that during its first 2 years of operation, the Endowment generally relied on its grantees to select, monitor, and evaluate their own programs. This was particularly true for the four main, the so-called core, grantees which represent labor, business, and the two political parties. Together the core grantees accounted for 88 percent of the Endowment's fiscal year 1984 and 1985 funds.

Specifically, we found that the Endowment selection process consisted essentially of funding projects submitted by the core grantees without reference to an overall plan. As for monitoring the Endowment did very little independent verification of financial and other program information, choosing instead to rely primarily on information provided by grantees. There was little in the way of project evaluation during the first 2 years of operation, although this in large measure was because many projects had not yet been completed.

As a rule the Endowment spent more time monitoring the relatively small noncore, or so-called discretionary grantees, which accounted for less than one-tenth of the Endowment funds, than it did on its large grantees.

Apparently, the Endowment's limited involvement in core grantee activities stemmed from its unique relationship with these grantees. The sectors they represent, again, labor, business, and the two political parties, played leading roles in establishing the Endowment, were specifically mentioned in the act as key private sector groups, and operated programs considered central to the Endowment's purposes.

One strongly held view within the Endowment was that its function was to serve primarily as a funding conduit for these four core grantees. This perception, along with congressional earmarking of the bulk of the Endowment's funds for the labor and business grantees, appear to have affected the manner and degree of Endowment oversight.

The situation is changing at the Endowment. As you know, by late 1985 some aspects of the Endowment's operations had been significantly altered. Most importantly, funding earmarks for the labor and business grantees have been eliminated, and a 25-percent limit has been imposed on grant awards to any one grantee. The latter is very important, because in its first 2 years the Endowment awarded 68 percent of its funds to a single grantee, that is, labor.

In addition, the Congress affirmed USIA's auditing responsibility, placed the Endowment under the Freedom of Information Act, and required the Endowment to coordinate its grant programs with the Department of State.

These changes and other events have prompted the Endowment to move toward a more active role in selecting, monitoring, and evaluating the grant programs. In March 1986, the Endowment board approved a policy statement intended to clarify the Endowment's relationship with its grantees.

This statement recognizes the Endowment's unique relationship to its core grantees, but also cites the Endowment's responsibility

as a recipient of congressionally appropriated funds. Next, the Endowment needs to prepare and implement procedures to put the policy statement into practice.

As it is, the statement does not spell out how the responsibilities will be carried out, and the board has provided no guidance to its staff on implementing this policy vis-a-vis the core grantees.

In preparing its procedures we believe the Endowment needs to pay particular attention to planning and selecting projects, verifying grantee information, and evaluating completed projects. My detailed statement discusses each of these areas as well as our suggestions as to how the Endowment could strengthen its grantee oversight.

At this point, I would like to focus on several key points.

First, recent changes in the Endowment are causing a major shift in the amounts grantees will receive, resulting in a much more widely dispersed program. For example, the labor sector will receive less than one-third of the amount it was granted in 1985, and the discretionary grantees will experience a threefold increase in their funds. Thus, the Endowment will necessarily be making more decisions regarding the allocation of funds to specific projects.

As less of its program is managed by the relatively experienced labor sector, the Endowment will need to become more involved in program planning, including setting priorities and making resource allocation decisions. Thus, we believe the Endowment should take the additional step of providing specific guidance on program priorities and geographical targets for grantees to use in developing their projects.

We turn now to monitoring. Our greatest concern about the Endowment's monitoring stems from the fact that the Endowment generally had no way to verify the information being provided by its grantees. Endowment staff rarely conducted field visits. During fiscal years 1984 and 1985 the Endowment conducted no audits to determine whether grantees were complying with the terms of their grants.

The potential impact of the lack of Endowment verification was compounded by the fact that in many cases grantee reports were based on unverified information obtained from subgrantees.

We are suggesting that the Endowment establish procedures and assign responsibility to selectively an independent audit or by other means verify the information submitted by the grantees to assure compliance with grant terms and objectives. The amount of verification needed would depend on such factors as reliability in the experience of the grantees, the amount of supervision they exercise, and the level of sensitivity of the projects.

And lastly, as the Endowment gets more involved in planning and project selection evaluations will become increasingly important in providing information on the types of projects that have been successful in the past. We are suggesting, therefore, that the Endowment's procedures for evaluating completed projects be clarified.

This concludes my statement. I will be happy to answer any questions you might have.

[The prepared statement of Ms. McCabe follows:]

PREPARED STATEMENT OF JOAN M. McCABE, U.S. GENERAL ACCOUNTING OFFICE

Mr. Chairman, Members of the Subcommittee:

I am pleased to be here today to discuss our work regarding the National Endowment for Democracy's administration of its grants program. Based on your request, we reviewed the Endowment's procedures to select, monitor, and evaluate its overseas grants. This morning I would like to summarize the information in our draft report, which has been provided to you and which is currently with the Endowment, the U.S. Information Agency, and the Department of State for their review and comment.

Overall, we found that during its first 2 years of operation, the Endowment generally relied on its grantees to select, monitor, and evaluate their own programs. This was

particularly true for the four main--or so-called core--grantees, which represent labor, business, and the two major political parties. Together the core grantees accounted for 88 percent of the Endowment's fiscal year 1984 and 1985 funds.

Specifically, we found that the Endowment's selection process consisted essentially of funding projects submitted by the core grantees without reference to an overall plan. As for monitoring, the Endowment did very little independent verification of financial and other program information, choosing instead to rely primarily on information provided by grantees. And there was a minimal amount of evaluation of projects during the initial 2 years of operation--although in large measure this was because many projects had not yet been completed. As a rule, the Endowment spent more time monitoring the relatively small non-core (or discretionary) grantees, which accounted for less than one-tenth of the Endowment funds, than it did on its large core grantees.

Apparently, the Endowment's limited involvement in core grantee activities stemmed from its unique relationship with these grantees. The sectors they represent--labor, business, and the two political parties--played leading roles in establishing the Endowment, were specifically mentioned in the act as key private sector groups, and operated programs considered central to the Endowment's purposes. One strongly held view within the Endowment was that its function was to serve primarily as a funding conduit for the four core grantees, which would design and implement their own programs. This perception, and congressional earmarking of the bulk of the Endowment's

funds for the labor and business grantees, appear to have affected the manner and degree of Endowment oversight of core grantee activities.

The situation is changing at the Endowment. As you know, by late 1985, some aspects of the Endowment's operation had been significantly altered--most importantly funding earmarks to the labor and business grantees have been eliminated, and a 25-percent limit has been imposed on grant awards to any one grantee. The latter is very important because in its first 2 years, 68 percent of the Endowment's funds went to a single grantee--labor. In addition, the Congress affirmed USIA's auditing responsibility, placed the Endowment under the Freedom of Information Act, and required the Endowment to coordinate its grant programs with the Department of State.

These changes and other events have prompted the Endowment to move towards a more active role in selecting, monitoring, and evaluating its grant program. In March 1986, the Endowment Board approved a policy statement intended to clarify the Endowment's relationship with its grantees. This statement recognizes the Endowment's unique relationship to its grantees, but also cites the Endowment's responsibility as a recipient of congressionally appropriated funds to "ensure that funds are spent wisely, efficiently, and in accordance with all relevant regulations." The next step needed is the preparation and implementation of procedures to put the policy statement into practice. As is, the statement does not spell out how the responsibilities will be carried out, and the Board provided no guidance to the staff on implementing this policy vis-a-vis the

core grantees. This is especially important given the Endowment's history of treating core grantees differently from discretionary grantees.

We believe that planning and project selection, verification of grantee information, and evaluation of completed projects are areas requiring particular attention. For the remainder of my statement, I will be discussing each of these areas in detail, as well as our suggestions as to how the Endowment could strengthen its oversight of grantee activities.

PLANNING AND SELECTION

The Endowment did not develop a comprehensive planning process during its first 2 years. The Endowment's Board generally defined the types of projects it wished to foster, but it did not establish priorities or target specific countries or regions. The core grantees made their own decisions regarding regional allocations and submitted their proposals to the Endowment board for approval.

We reviewed core and discretionary grantee proposals that had been approved during fiscal years 1984 and 1985. Regarding the proposals submitted by core grantees, we found that some were not sufficiently detailed to determine what the projects were intended to accomplish. The lack of specific information in some proposals approved by the Endowment was apparently linked to the grantee's view that, due to the sensitivity of some grants, public disclosure of certain information could harm or embarrass some recipients.

In contrast to the core grantee proposals, the approved discretionary grantee proposals that we reviewed generally appeared to contain adequate amounts of data concerning project activities to be undertaken.

Recent changes in the Endowment's legislative guidance will change the way the Endowment operates its planning and selection process. Specifically, the elimination of legislatively mandated earmarks and the 25-percent limit on awards to any one grantee will cause a major shift in the amounts grantees will receive, resulting in a much more widely dispersed program. For example, the labor sector will receive less than one third of the amount it was granted for 1985, and a three-fold increase in funds will be allocated to discretionary grantees in fiscal year 1986. This indicates that the Endowment will necessarily be making an increased number of decisions regarding the allocation of funds to specific projects. As less of its program is managed by the relatively experienced labor sector, the Endowment will need to be more involved in program planning, including setting program priorities and making resource allocation decisions.

The Endowment has recognized its responsibility to improve its planning and selection process. For example, its recently approved policy statement specifically identified setting program priorities as an Endowment responsibility. Also, in December 1985, it asked the core grantees to provide more specific information in their proposals, comparable to that required of discretionaries. Our review of some fiscal year

1986 core grantee proposals indicated that the proposals were generally more detailed and descriptive than those submitted in prior years.

We believe the Endowment should take the additional step of providing specific guidance on program priorities and geographical targets for grantees to use in developing their projects.

MONITORING

Turning now to monitoring. The Endowment's procedures state its program monitoring practices should ensure that planned activities are being implemented, funds are being properly spent, progress of grant activities is being tracked, and problem areas are identified in a timely manner for immediate action and resolution.

We identified some problems and limitations concerning the Endowment's monitoring efforts, as follows.

- Endowment staff spent relatively little time monitoring core grantee activities.
- Some core grantee quarterly reports contained little information on progress and did not always identify problems we observed during our fieldwork.
- One core grantee's quarterly reports were chronically late, ranging from 3 weeks to as much as 5 months in one case.

However, our greatest concern about the Endowment's monitoring stems from the fact that it generally did not verify the information being provided by its grantees, particularly the core grantees. Endowment staff rarely conducted field visits.

During fiscal years 1984 and 1985, the Endowment conducted no audits to determine whether grantees were complying with the terms of their grants. The required audits on grantee financial statements were not intended to test grantee financial transactions to establish that Endowment funds were ultimately expended for the intended purposes. The potential impact of this lack of Endowment verification was compounded by the fact that, in many cases, grantee reports were based on unverified information obtained from subgrantees.

In late 1985, the Endowment began to require compliance audits for new discretionary grantees to ensure that grant terms are met. However, transactions below the grantee level will not necessarily be tested, and as of April 1986, this requirement had not been extended to core grantees.

We are suggesting that the Endowment establish procedures and assign responsibility to selectively and independently audit or, by other means, verify the information submitted by grantees to ensure compliance with grant terms and objectives. These audits or verification could be accomplished through the use of the Endowment staff or internal auditors, or, in some cases, by expanding the scope of currently required audits. The amount of verification needed would depend on such factors as the reliability and experience of the grantees, amount of supervision they exercised, and level of sensitivity of the projects.

EVALUATION

According to Endowment procedures, grantees are expected to evaluate their own programs to ensure that objectives are met

and that funds are being used wisely. They are required to include self-evaluation plans in their program proposals and submit a project evaluation as part of their final report.

In practice, however, we found that these procedures were not being strictly followed. We found that during 1984 and 1985, Endowment-approved grantees' project proposals were often vague or silent regarding evaluation plans. The Endowment staff considered the usefulness of such plans to be very limited and preferred to evaluate discretionary projects themselves.

However, the Endowment does not have a methodology or procedure to guide its own staff's evaluation of discretionary project results. We were told that the staff therefore evaluated discretionary projects on an individual basis in terms of their particular goals and circumstances, and only if the grantees had requested that the projects be renewed.

In its March 1986 policy statement, the Endowment Board listed as an Endowment responsibility project evaluations prior to a grantee or a project being funded again. However, the policy statement did not spell out how these responsibilities would be carried out and the Board provided no guidance to the staff on implementing the policy. Also, the policy appears to be inconsistent with current Endowment procedures, which call for self-evaluation by grantees. Since, as discussed previously, the Endowment will be getting more involved in planning and project selection, project evaluation will become increasingly important in providing information on what type of projects have been successful in the past. We are suggesting, therefore, that the apparent inconsistency between the

Endowment's procedures and its recent policy statement be clarified concerning responsibilities for evaluating completed projects.

COORDINATION WITH THE
DEPARTMENT OF STATE

I would like to discuss one last issue--that is, the Endowment's coordination with the State Department. The act originally did not require the Endowment to coordinate its programs with State headquarters or with U.S. embassies abroad. Nevertheless, some coordination took place--both in Washington and in the field. The latter mostly involved coordination by labor grantees, in large measure because labor had a field structure in place, and had long-established relationships with U.S. embassies.

Among the State Department and embassy personnel we contacted, we found no consensus regarding the degree of coordination needed. State and embassy spokesmen expressed varying degrees of satisfaction concerning coordination, and differed as to how much involvement in, or information on, projects was desirable.

As you know, the fiscal year 1986 authorization legislation required the Endowment to consult with the Department before initiating any overseas projects using fiscal year 1986 funds. By January 1986, Endowment and Department officials had agreed that copies of all proposals going to the Endowment Board would be forwarded to the Deputy to the Under Secretary of State for Political Affairs. In April, the Deputy to the Under Secretary informed us that he was generally satisfied with the initial

implementation of this agreement, although he would reserve final judgment until the process had been repeated several times. We understand that the Deputy to the Under Secretary will be discussing these matters later this morning.

This concludes my statement. I would be happy to answer any questions that you may have.

Mr. MICA. Mr. Toureille, do you have any comments?

Mr. TOUREILLE. No.

Mr. MICA. I guess the quick first question is whether self-evaluation by grantees is a norm in the grant process in other types of Federal programs or is it never done?

Ms. McCABE. Self-evaluation is certainly done; yes.

Mr. MICA. To what extent?

Ms. McCABE. I don't feel qualified to give that answer, but it certainly is done. We feel that it would be a very valuable tool in this program. One of our problems, as we bring out in our draft report, is that although the Endowment procedures require or call for self-evaluation, this has not been strictly enforced, or strictly complied with during the 2 years that we were looking at.

There was a tendency to downplay the value of self-evaluation for the discretionary grantees. Instead the Endowment staff was evaluating those projects.

Mr. MICA. Didn't you say in your report that self-evaluation was not done except in cases where they were reapplying?

Ms. McCABE. That is generally correct, in that the Endowment only evaluated discretionary grantees who reapplied for funds, and did not always enforce grantee self-evaluation procedures.

Mr. MICA. That was the norm?

Ms. McCABE. That was the norm for discretionary grantees. For the core grantees which, again, we are talking 88 percent of the Endowment's funds going to core grantees, self-evaluation was not being enforced.

Mr. MICA. Well, would your recommendation indicate the need for some kind of mandatory self-evaluation on a regular basis?

Ms. McCABE. We believe self-evaluation would always be useful. We also think that there should be some Endowment involvement in setting the standards for evaluation, and checking up to assure that the information that is contained in the evaluation is reasonably accurate.

I think you just can't take a self-evaluation and not check on it. But beyond that we have no problem with self-evaluation.

Our particular problem was that the Endowment had a procedure, and then they have a policy statement that appears to be saying that the Endowment was going to evaluate projects. What we are saying is that you have to clarify who is going to do this or you might wind up having no one do it or both doing it, which could be a waste of resources.

Mr. MICA. Well, then, if I hear you correctly, what you might be supportive of is some type of an internal rule or regulation, or legislation that says that every project will follow a self-evaluation procedure on a regular basis and that the Endowment will then audit these on some selected or random basis.

Ms. McCABE. That appears to reasonable to us.

May I just ask, Pierre, do you have any comments?

Mr. TOUREILLE. No; I agree with that conclusion.

Mr. MICA. It sounds pretty reasonable to me, as a matter of fact.

You mentioned a few projects that you had some concerns over, I think, one in France. Two or three projects were mentioned, but I didn't see an overall judgment on the projects; did you make such a judgment?

Ms. McCABE. No, we didn't.

Mr. MICA. You don't have any indication or in any way can say that generally you feel all the projects are going too much in one direction or another?

Ms. McCABE. No; that was not the nature of our review. We obviously have some observations about the projects.

We saw some projects that we were uncertain whether the objectives were reasonable and whether they could possibly be achieved. Others we saw floundering, or delays occurring. But we saw no horror stories and we have no overall view to bring to bear on Endowment projects as a whole.

Mr. MICA. I have a number of other questions, but what I will do is rotate to my colleagues.

I will ask one more here, and then wait my turn.

On sensitive grants, the ones most of us would agree are appropriate to be made, but not appropriate to be revealed, can NED, in fact, engage in those kinds of activities under the laws under which they operate?

Ms. McCABE. We try to make a distinction between secret grants and sensitive grants. Secret grants where you, the committee, would not know about those grants, where they would not be publicly described as contributing to a purpose of the Endowment, where they would be hidden from any type of oversight. We don't know that that is appropriate for the Endowment. It certainly is not indicated in any of the background leading up to the creation of the Endowment, or the funding of the Endowment.

As for sensitive grants, yes; I think that we will have some grants. They may not be sensitive in this chamber, but if you are funding, say, a movement in a closed society, and money is reaching individuals, it is certainly sensitive for those individuals. So I think that we have to be careful when we are talking about sensitive—sensitive to whom.

I think that if the Endowment cannot assure that information at that level of detail where individuals—particularly in closed societies, would not be jeopardized, then they shouldn't engage in those projects. They should seek to ensure either through intermediaries that the type of information that could jeopardize individuals would not appear on the front page of the Washington Post. If they can't do that they shouldn't—

Mr. MICA. Given your assessment, though, they can do this under the guidelines in which they are charged to operate the agency.

Ms. McCABE. I think with the use of intermediaries, they may very well be. But I think you probably should be addressing that more to the Endowment, because they would be more familiar with their constraints in that area.

Again, secret, no; sensitive, it would be difficult to carry out this act without getting sensitive areas.

Mr. MICA. Mr. McCain.

Mr. MCCAIN. Thank you, Mr. Chairman.

Ms. McCabe, I noticed that in your prepared statement you talk about the fact that the situation is changing at the Endowment because the funding earmarks for labor and business grantees have been eliminated, and you say that it will lead to a much wider dispersal of grants. As an observation, do you think that is healthy, or

do you think that is a good direction for them to go; or do you have any opinion on that?

Ms. McCABE. I probably won't answer the question directly. I think it is a direction that the Endowment is going to have to gear up for. The way they had been operating over the past 2 years, where most of the programs were essentially laid out for them. It did not require some of the resource allocation decisions, and some of the programmatic decisions that they are now going to have to make.

I think that they will have to get more involved in those decisions. I think the extent to which they are successful in doing that and providing good guidance and setting sound priorities, I see no reason why the Endowment wouldn't benefit from that direction.

On the other hand, if there isn't that good guidance and control coming from a central point, the dispersal of the program could cause some problems because we would be replacing a relatively experienced on-the-ground outfit, such as labor with organizations that have varying degrees of experience. The ability of the Endowment to control that will be a challenge to them.

Mr. McCAIN. Which would then heighten your concern about, as you mention on page 6, about the Endowment's monitoring. You would be even more concerned about the fact, from your statement, "that it generally did not verify the information being provided by its grantees, particularly the core grantees, the Endowment staff rarely conducted field visits, et cetera."

But you have seen some improvements in that area?

Ms. McCABE. We have seen that the Endowment has defined its roles vis-a-vis the core grantees in a way that would open up the opportunity for that sort of verification. However, that has not yet been put into practice. Thus we are suggesting the next step—to define who is going to do this, and how is it going to be done, and under what rules. We believe selective verification would be the best means. It obviously will have a resource impact on the Endowment which would have to be considered.

Mr. McCAIN. You made a number of visits, you and your staff, to various embassies throughout the world; did you find an atmosphere at the embassies that this was a good thing that was being done?

Ms. McCABE. Actually, we found no consensus. But I think Pierre would probably be the best one to address that.

Mr. TOUREILLE. We found a variety of views in the embassies regarding the Endowment's relationship and coordination with the executive branch and the embassies. In general, the embassies were in favor of the concept of the Endowment.

Mr. McCAIN. Thank you.

Just one final question, Ms. McCabe. Since the inception of NED there have been allegations of conflict of interest in the Endowment's board; that members of the board also serve on the boards of the grantees. This was a real concern to many of us on the committee because we found that something like 75 percent of the grants were made to organizations which were represented on the board. Do you have any comments on that, have you seen any change in that?

Ms. McCABE. During the period we were looking at, the actual percentage was 88 percent of the grants being made to the core grantee organizations.

The Endowment as a private organization is not under the Federal conflict of interest strictures. If they were under the Federal guidelines, the core grantee officials sitting on the Endowment's board would probably be getting into a conflict of interest area if they voted on their own grants.

As it is, the bylaws of the Endowment preclude core grantee officials from doing so. They may participate in the board's discussion to the extent of providing information, but must absent themselves from voting on the particular grants. So in that respect they probably are technically meeting the conflict of interest requirements, if they applied to them to begin with.

But I think it goes a little further than that to appearances. It raises questions of independence. Probably in the first 2 years that may not have been very important, because most funds were earmarked. If we continue into an era where funds are not earmarked, the Endowment board will have to make many more decisions on resource allocations and oversight of the core grantees. Thus, there may be more serious questions about the independence on the board.

On the other hand—because there is always another hand—on the other hand, there is a lot to be gained from having knowledgeable, experienced people, influential people, interested people, on that board, and I think that one would have to consider what the board would look like, if one did not have people at that level.

I think there are a lot of things to consider. There are benefits, and there are obviously some questions.

Mr. McCAIN. I appreciate very much your observations. The chairman and I, and members of the subcommittee have discussed this in the past. I feel that the appearance is damaging sometimes when you have such a large percentage of the grants going to organizations which are represented on the Board. I have been told by the Endowment people that they will be heading in the opposite direction. I hope that is the case, because I think that will help their credibility a great deal.

Thank you, Mr. Chairman.

Mr. MICA. If I may just follow up on that. You said 88 percent of the grants are going to the—

Ms. McCABE. Core grantees. That was in 1984 and 1985. I should hasten to say that that was the period that we looked at. The distribution now is much different.

Mr. MICA. Are you saying that you included in that figure that if anybody in organized labor got money that that would be a part of that 88 percent, any organization anywhere in the world that was labor?

Ms. McCABE. It went through FTUI; yes.

Mr. TOUREILLE. Yes. FTUI received all Endowment funds that were to be used for labor-related purposes.

Mr. MICA. I understand that, but I guess the point that I am raising is that I share the same concern as Mr. McCain. But on the other hand, if you have an organization that represents, in effect,

two different political perspectives, and business and labor, how do we construct a board that has no interest? That is everybody.

Ms. McCABE. That is what I was trying to get at, you would have to really wonder what the board was going to look like without people who are clearly identified with those groups.

Mr. MICA. Could you, or would you, or have you in the past made recommendations to meet that kind of criteria, that no one on the board have any interest or knowledge of the area?

Ms. McCABE. In a case like this, no. In a case like this we would not have the basis for making that recommendation because we don't think there is a legal problem. But we think it raises questions. It comes down to a policy decision.

Mr. MICA. Ms. Snowe.

Ms. SNOWE. Thank you, Mr. Chairman.

Ms. McCABE, to follow up on this issue of the appearance of conflict of interest on the board, to what extent are they aware of the discussions and the votes cast by the members of the Board if they are not present because they represent one of the grants that are being considered by the board?

Ms. McCABE. They are present, if they happen to attend the meeting they would be present. They do not vote; but they do not, as I understand it, necessarily leave the room.

Ms. SNOWE. Do they participate in discussions?

Ms. McCABE. My understanding is that they would participate, not from an advocacy point of view, but they would answer questions and supply information, and so forth.

You have attended some board meetings?

Mr. TOUREILLE. I have. I observed that they stay, and that they are allowed to respond to questions regarding the specifics of a program. The bylaws restrict them from voting but not from providing information to others on the board.

Ms. SNOWE. By virtue of the fact of their presence and being able to answer questions, that does give them a different position than those who represent discretionary grants. They are not, are they, in the same position to answer questions to the board about the nature of their grants?

Ms. McCABE. That could very well be.

Ms. SNOWE. So, it is clearly the combination of issues between evaluation, which really hasn't taken place to any great extent to the core grantees by comparison with discretionary grantees, and the appearance of conflict in that, it seems to me it creates a number of different problems.

To what extent will they be evaluating the core grantees in the same manner as discretionary grants?

Ms. McCABE. That is the other shoe that we think has to drop. The policy statement would lead one to believe that everyone was going to be treated the same. It does not spell out how this will actually happen.

In the past certainly the Endowment had a more hands-off approach to the core grantees than they had toward the discretionaries. That stretched everywhere from selection through monitoring, to evaluation. As the discretionary grows and the core grantee portion shrinks, it remains to be seen whether they will be treated the

same and how they will be treated. We think that is the next step that the board has to take.

Ms. SNOWE. So they haven't made that determination as yet?

Ms. McCABE. They have not specifically defined how the policy statement will be implemented. It is a fine positive policy statement. But until the other things occur, we are not in a position of saying anything other than it is a good start. We think some things have to be done in order to get to the point of applying the same sort of standards to the discretionaries as are applied to the core grantees.

Ms. SNOWE. Well, I just think the same standards have to apply. I am not sure that the core grantees can perform that self-evaluation. There has to be some independence in terms of evaluation and scrutiny of these grants, whether they are core grantees or discretionary grants.

I find it interesting because in the policy statement that was passed by the Board, it mentions the fact that in passing this statement that it should minimize the need for increased staff, which I see as an inconsistency. It would occur to me that if they are going to increase their evaluation in oversight responsibilities to the core grantees, that it would require additional staff to manage that responsibility.

Ms. McCABE. It would seem that way to us, too. But then the board might choose to conduct their independent oversight not through permanent staff but perhaps through consultants, or perhaps through hiring CPA firms to perform compliance audits. Thus there may not be necessarily an increase in the staff.

But it would seem to us certainly that the board would look to their staff to help them carry out their responsibilities. We would think it would be that way, but it is up to the board to decide how it wants to fulfill its responsibilities.

Ms. SNOWE. In other words although they passed this policy statement, they have not specifically defined how it will be implemented.

Ms. McCABE. That is our point. But we have got to remember that the policy statement was just passed in March, and the board generally meets—what, four times a year?

Mr. TOUREILLE. Four times a year.

Ms. McCABE. So things might move a little slowly.

Ms. SNOWE. But, then, I guess what I am saying is this could take a considerable period of time before they get their house in order to evaluate these core grantees on the same footing as discretionary ones.

Ms. McCABE. It could very well.

Ms. SNOWE. Thank you, Mr. Chairman.

Mr. MICA. Mr. Gilman?

Mr. GILMAN. Thank you, Mr. Chairman.

Ms. McCabe, you have recommended better NED oversight, which implies additional and more extensive field visits. What would this do to their budget? Can they manage that expenditure under their existing budget? Are these field visits necessary to proper oversight?

Ms. McCABE. I think field visits is just one way. It is not the only way that one can evaluate. But yes, I think their administrative costs will probably increase.

During the 2 years we looked at—1984 and 1985—the Endowment's administrative costs were about 4 percent of the total budget. For 1986, we understand it has gone up to a little over 6 percent, and they are planning on adding some additional staff. Whether that will be sufficient to carry out the selective monitoring and verification that we believe are necessary, we don't know at this time.

Have they even hired the people yet?

Mr. TOUREILLE. I am not aware of that.

Mr. GILMAN. Well, based upon what you know about the existing personnel and the existing budget do you think that they have the capability?

Ms. McCABE. I think they will have to increase their staff. Whether the increases they have already planned for are sufficient, we don't know. But certainly with the staff that they have they probably could not do—

Mr. GILMAN. What sort of an increase would you be talking about?

Ms. McCABE. It would very much depend on whether they decide to use their own staff or whether they decide to expand the annual audits. They currently have annual CPA audits of the grantees financial statements. They could expand those and require some compliance auditing during those audits. If that were done they would not need as much of an increase in permanent staff; or they could decide to use consultants.

In other words, there are a lot of ways the board could decide to go. It is hard to say how much it is going to cost until they define how they are going to do it; that is what we don't know right now. But I think it will cost more in terms of the Endowment's administrative budget.

Mr. GILMAN. You say it is now going up from 4 to 6 percent. What are the usual administrative costs for programs of this nature, percentage wise?

Ms. McCABE. Do you know?

Mr. TOUREILLE. I do not know.

Mr. GILMAN. Do you know if there are standards or criteria?

Ms. McCABE. I am sure there are. The 4-percent figure does not contain other hidden, administrative figures of course, because the Endowment funds some of the Administrative costs of the grantees and intermediaries in the grant program. The 4 to 6 percent refers the central administrative costs.

Mr. GILMAN. So, really you would be whittling away what would be available for programs, and be more involved in implementation and evaluation, that kind of assistance?

Ms. McCABE. Yes, sir. Oversight does come with a price.

Mr. GILMAN. Isn't there any independent agency that is out there that can do the kind of evaluation that is needed?

Ms. McCABE. I don't think they would want us around all the time.

Mr. GILMAN. What I am getting to is the dollars were hard enough to come by, to appropriate for this purpose, and now if we

are going to whittle it away with the oversight and administrative costs, we are again reducing the funding that is available for doing the kinds of things that we would like to see them do.

Ms. McCABE. And that is very definitely a concern. It is very definitely a concern that has been voiced by the major grantees.

Mr. GILMAN. How best can they get a decent evaluation without tacking on a lot of heavy administrative costs?

Ms. McCABE. I think the one key is "selective." You don't go out and evaluate everything. You put in place a system where you can develop reasonable assurances about the information you are receiving. But you have got to get to that point first.

The Endowment does not now have the sort of system which allows for independent testing of the information it receives.

Mr. GILMAN. Are you able to design for them a better system, is GAO available to design for them a better system, that would be cost-effective and still accomplish what has to be done?

Ms. McCABE. We are certainly available to discuss with them what we see are the various options and the ways that are normally employed to reach that goal. But the decision as to how that will be implemented has to be theirs.

Mr. GILMAN. You can spell out a reasonable system for them?

Ms. McCABE. We can then discuss the options certainly.

Mr. MICA. Would the gentleman yield?

Mr. GILMAN. Yes.

Mr. MICA. I thank the gentleman. I just can't let this pass.

The gentlemen was talking about the dollars that might go to management, and as a Democrat who is not very partisan, I have to use a Republican line that "with all the money we are going to save cutting out all the waste and inefficiency, we will have even more money."

I understand; and I think it is a balancing act. We have to put a little more attention towards the management and the oversight, and indeed, maybe we will have a little more money here and there. But it is going to be a tough balancing act.

Let's come to management for a minute. Management, staff, staff time, allocation of duties, your report mentioned some problems there, that there really isn't a separation as you indicate. Do you see a reasonable management operation, and is the organization being run from a management basis appropriately?

Mr. TOUREILLE. In general, we did not observe any horror stories regarding the way in which it is managed.

What we identified in the report as a lack of clarity regarding the staff's responsibility vis-a-vis the programs of the core grantees. Most of the staff's time was devoted toward the selection, monitoring, and evaluation of the discretionary grants, which were less than 10 percent of the Endowment's total budget.

Mr. MICA. I am not sure I understand what you mean by a lack of direction—I am quoting from your report—"A lack of direction or separation of responsibility prevents staff from doing the job it should."

Ms. McCABE. I am not sure what you are quoting from there either.

Mr. MICA. I paraphrased your report. My staff rewrote the question from this report here but, essentially, that is what you are saying; you didn't quite say it that way. What are you getting at?

Mr. TOUREILLE. Last year, as we talked to the staff about their responsibilities, we observed a lack of a clear understanding on their part as to how they were to exercise their responsibilities in regards to the programs conducted by the core grantees that got most of the Endowment's funds. The staff of the Endowment spent most of its time focusing on the small discretionary projects.

This relates back again to the central—

Mr. MICA. If I may, let's be direct. We are talking in circles here. Are we saying that some of the staff told you that they didn't know what their job was?

Mr. TOUREILLE. They weren't clear as to how the procedures of the Endowment should be applied to core grantees, or how core grantee reports should be reviewed.

Mr. MICA. Well, the inference is then that they did know that they were to audit the discretionary funds, but they weren't sure whether or not they were not supposed to audit the core grantees.

Ms. MCCABE. They didn't have clear direction in that regard.

Mr. TOUREILLE. That was my conclusion.

Mr. MICA. And this wasn't just one instance, this was in general?

Mr. TOUREILLE. The responsible officials.

Mr. MICA. Well, I would agree with you then, that needs to be clarified. I think that is a management concern that needs to be addressed immediately.

I would say this, I don't want to throw any stones, because if you ask most congressional staffers what their jobs are, you might get the same response. But I understand that; and it does need to be clarified.

Mr. MCCAIN. Mr. Chairman.

Mr. MICA. Mr. McCain, let me find out what the vote situation is, or if there is a vote.

Mr. MCCAIN. I just have one more question.

By the way, I would think that most staffers answer would be to get their boss reelected.

Mr. MICA. There is an honest man.

Mr. MCCAIN. I just have one more question. Before I ask it, I would like to say, Mr. Chairman, what I should have said at the onset, and that is that I have seen some remarkable and unique things that have been accomplished by Endowment grantees, particularly in Latin America. I think they have done some things in both right-wing countries, as well as left-wing countries, which I think they are uniquely capable of; that I think our State Department or CIA would not have been capable of accomplishing.

I think that is important to point that out as we review their procedures and their management. They are accomplishing some tremendous things which I believe will over time achieve the goal which we seek, and that is free and democratic countries throughout the world, particularly in Latin and Central America.

I would appreciate any comment you might have on that, Ms. McCabe.

But my question goes back to what I think is the most contentious aspect in here, at least in the House of Representatives, con-

cerning the Endowment, and that is the involvement of the political parties. There are many of us, despite what I just said, that really view the Republican and Democratic Parties in this country as organizations which select candidates, help in getting them elected to public office, and are domestic oriented, hopefully. We just find it difficult to envision roles for the Republican and Democratic Parties as grantees; using the taxpayers money in any fashion, much less in Endowment activities.

Could you comment on your observations as to the viability, what your personal opinion is as to whether it is a good or a bad idea?

Ms. McCABE. Personal opinion?

Mr. McCAIN. Personal opinion.

Ms. McCABE. I notice you snuck that in there.

Mr. McCAIN. So you couldn't evade the question.

Ms. McCABE. I know, I was about to.

Mr. McCAIN. I notice how you handled Mr. Gilman with such skill.

Ms. McCABE. I would point out that from a GAO standpoint, that there was nothing that we saw that indicated that there was any problem with the way the political party grantees were operating within the Endowment.

As for my personal opinion, I have no problem with political party involvement. I think that some of the programs that they have put forward have as much merit and seem to be doing as much good as some of the ones put forward by the other grantees.

So, I did not come down either way. I wouldn't say I personally would go to the wall for this particular provision, but I don't see any problem with it either.

Mr. McCAIN. I appreciate very much your answer.

Thank you, Mr. Chairman.

Mr. MICA. Well, is GAO for or against the Republicans or the Democrats?

Ms. McCABE. GAO likes them both.

Mr. MICA. We have a number of other questions. What I would like to do is to call the next witness up, unless anyone would like to proceed with additional questions of GAO.

We will submit these others.

Ms. SNOWE. Although the policy statement was unanimously approved by the board you indicated that there were some misgivings expressed on the part of the board about getting involved extensively in the core grantees activities. To what extent will that inhibit an evaluation of the core grantees and also the implementation of independent verification?

Ms. McCABE. Until we see the procedures and how this is going to be implemented, there will always be that question. Certainly the discussion that surrounded the adoption of that policy was one in which a number of the board members made known their concerns—that the Endowment would start micromanaging, and that this wasn't the way the Endowment was supposed to operate. And I think that there were legitimate concerns about micromanagement. If the Endowment started managing these programs, there would be those concerns. That was very clear in the discussion, and

that is why we think it is very important to define how the policy statement will be implemented.

Ms. SNOWE. Well, you mention that congressional earmarking of funds to certain grantees created confusion on the part of the Endowment and the board as to what role they should play, what their functions should be with respect to this verification and evaluation; should we change; should we adopt legislation that would clarify the role of the board and the Endowment with respect to these obligations and responsibilities?

Ms. McCABE. When 80 percent was earmarked, as was the case in 1984-85, an element of uncertainty arose as to whether the Endowment had much to say about how those grants were used. After all the Congress had indicated clearly that they wished the grants to go to certain groups. So as long as funds were earmarked I think there was some reasonable basis for questioning the Endowment's role.

Ms. SNOWE. So the lower earmarkings have been helpful?

Ms. McCABE. The elimination of earmarkings eliminates that particular argument for the Endowment's, handsoff policy toward the core grantees.

Ms. SNOWE. Thank you, I appreciate your testimony.

Mr. MICA. Last point if I may, are there any legislative recommendations since you have written your report or anything that you would recommend such as changes in the law, or the legislative structure that NED might try?

Ms. McCABE. No. If in another year or so the Endowment has not adjusted to the new guidance and the funding environment that the Congress has set forth, then you might wish to consider something. But we don't see any need for legislative action now.

Mr. MICA. Thank you very much. We appreciate your being with us. We will submit these questions for the record.

I might ask my colleague, Mr. Smith, if he has any questions for GAO if he would like to submit them for the record, we would like to move on to the next witness.

[The questions and responses follow:]

QUESTIONS FOR THE GAO

1. Given the original concept of the Endowment, was it logical that core grantee programs not be submitted to as stringent a review as discretionary programs?
2. Should there be any difference in the way the Board reviews discretionary grants or core grant proposals either for grant eligibility or evaluation? Can the Endowment retain a unique relationship with the core grantees?
3. Your report seems to indicate that, as the concept of the Endowment has evolved and the number of restrictions imposed upon its operations have increased, NED has become more control conscious. In performing your audit, did you feel that the organization has become more aware of its management responsibilities?
4. You recommend that NED perform better oversight. Presumably one way of doing this is by visiting projects in the field? Are field visits necessary for proper oversight? Does NED have the staff it needs to perform the programmatic functions recommended by GAO?
5. With the three-fold increase in funds to be allocated to discretionary grantees in FY 1986, what will this do to demands on staff time? Presumably, discretionary grants would take more research as there is less likely to be a record of accomplishment for the organization within NED.
6. Do you have any feeling regarding the use of NED funds in Europe as opposed to the third world where there is more need for democratic institution building?
7. What is your opinion of evaluation of projects only if they are to be renewed?
8. *Should compliance testing be required below the grantee level?*

1. The rationale for the less stringent review generally given to core grantee programs during the Endowment's first 2 years was based on what appears to have been a widely held belief that the Endowment was intended to be a conduit of funds to the four core grantees. This interpretation of the original Endowment concept is reflected in statements made at Endowment board meetings and in the 1983 study which outlined the original concept. The study referred to the Endowment as "the 'umbrella' organization through which [the four core grantees] would receive their funding and within which each of the four could evolve autonomously...." as a "coordinating mechanism" for budget proposals from and Endowment disbursements to core grantees, and as a "visible symbol" of the private sector's efforts in promoting democracy. Although the Endowment Board--which meets quarterly--was intended to perform "general oversight functions" to insure that the Endowment's "broad values and legislative purposes were being honored," the study did not specify the nature or extent of this oversight, nor did it describe the support the board would require of its staff in reviewing core grantee proposals and in monitoring and evaluating core grantee programs.

The conduit interpretation of the Endowment's role was reinforced by the National Endowment for Democracy Act's funding earmarks for the labor and business core grantees. Endowment staff interpreted the act's earmarks as directing the Endowment to subject FTUI and CIPE proposals to less stringent review. Other relevant factors included a desire to minimize the Endowment's administrative budget, and the level of experience of the AFL-CIO organizations that received most of the Endowment's funds.

2. As indicated in our statement, the Endowment's relationships with its grantees should reflect the reliability and experience of each grantee. Given this consideration and the core grantees' past experience with Endowment programs, the Endowment will probably continue to a relationship with them that differs from those with non-core grantees. For example, the Endowment should now have a more detailed understanding of each core grantee's capabilities and track record than it would of most other grantees. In turn, core grantees should have a greater understanding of the Endowment's objectives and procedures than most new applicants. The Endowment may therefore take these factors into account as it considers its procedures for reviewing grantee proposals and programs. However, the Endowment should also be mindful of its need to review all proposals carefully, including those of the core grantees. Core grantee programs will continue to absorb the bulk of Endowment funds in fiscal year 1986, and the activities funded through the core grantees will obviously have a major impact on the Endowment's efforts to achieve its objectives in a responsible manner.

3. It was our impression throughout our review that the Endowment and its staff were sincere in their desire to employ sound management procedures that reflected the Endowment's particular needs. Recent actions, such as the Endowment's decision to add an auditor to its staff and the adoption of the March 7 statement, appear to indicate a greater emphasis on controls.

4. Field visits to selected project sites are a key element in exercising responsible oversight in that they provide first-hand information that can be used to assess grantee monitoring and project evaluation systems and guide future selections of projects. The Endowment should develop a rationale to govern the use of field visits and integrate it into an overall plan for selectively verifying grantee-supplied reports and evaluations. Implementation of this rationale would affect, and be affected by, the size of the Endowment's staff. The Endowment's recent addition of a third full-time member to its program staff and its decision to hire an auditor indicate that it has concluded that a larger staff is needed to adequately oversee programs.

5. The tripling of funds for Endowment-developed programs will clearly increase the demands on the staff's time. During 1984 and 1985, the Endowment's program staff spent the bulk of its time in connection with a discretionary grant program that was much smaller than that envisioned for 1986. As the question indicates, in such cases the staff often would not have the same immediate access to first-hand information about a potential grantee's capabilities as it would in cases involving core grantees. Moreover, Endowment efforts to increase its verification of grantee-supplied information will also impose additional demands on the staff. The degree to which the additional program staff position added in 1986 will alleviate this situation cannot be determined at this time.

6. The National Endowment for Democracy Act and the Endowment's statement of principles and objectives do not explicitly rule out the use of funds in either Western European democracies or Eastern European closed societies. One of the six purposes of the Endowment refers to encouraging democratic institutions "throughout the world."

However, the Endowment's statement of principles and objectives states that the goal is to help other nations "evolve into" stable and vigorous democracies. It discusses the possibility of funding activities "where democracy exists but is not securely established" or in countries that are "in transition to democracy." It notes that the Endowment will focus most of its resources on situations that offer a realistic prospect for "achieving progress towards democracy" and that the Endowment's decisions must be guided by urgency of need in the context of the Endowment's democratic objectives.

Given these criteria and the Endowment's limited resources, it would seem reasonable that Endowment decisions to fund projects in Western European democracies would necessarily require a determination on its part that democracy "is not securely established" in the particular nations involved, or that some urgent need, compatible with the Endowment's objectives, mandates the use of funds in otherwise securely established democracies. Moreover, as our statement indicates, we believe that the Endowment should improve its planning process by establishing clearer geographical priorities. Such improvement would help insure that the Endowment's principles are translated into actual funding decisions.

7. Ideally, all programs should be evaluated at the termination of funding. Organizations can learn as much from failures and partial successes as they can from successes. Moreover, the Endowment may be losing important evaluatory information concerning grantees who do not immediately follow the completion of one Endowment-funded project with an application for another. If some such grantees file new applications a year or more later after the completion of projects, the Endowment will not have evaluations at hand to help guide its review of the new applications.

However, we also recognize that staff constraints may result in the need to prioritize projects to be evaluated by the Endowment staff. In such cases, the highest priority should be assigned to evaluating the projects of grantees requesting new funds.

8. The Endowment is accountable to the Congress to insure that the grant funds were expended for the purposes intended, and that information received from its grantees, as reflected in the Endowment's reports to the Congress, is complete and accurate. The Endowment cannot make such determinations without some verification at the levels at which funds were actually spent.

Compliance auditing does not necessarily require project-by-project audits. The critical element is the grantee's internal controls system, and emphasis should be placed on testing the adequacy of the controls in effect to insure that funds are being properly receipted and disbursed, expenditures are properly recorded and documented, and reports of expenditures are accurate and timely.

Once the adequacy of controls is established, selective checks on a project basis would be an acceptable procedure for verifying that funds are being properly used. The extent of such testing would be a function of the adequacy of controls, the grantee's proven track record, and the nature of the activities involved.

Mr. MICA. We will call up Mr. Anthony Gabriel, the inspector general of the USIA; and Mr. Tom Harvey, general counsel, USIA. They will be accompanied by Mr. Richard Swan, assistant general counsel, and Mr. John Lindberg, assistant general counsel.

We have all the lawyers we need in the room—

Mr. GABRIEL. Sir, there won't be any from OIG.

Mr. MICA. Well, then had better call and get some lawyers.

Let me just advise the committee of the procedure. We have this panel and one additional individual to testify, and we will hear their testimony, although they work on two different areas together, and then we will proceed with questions and try to bring the last witness up.

Mr. Gabriel, would you please proceed, and feel free to summarize your written statement, it will be included in its entirety in the record.

STATEMENT OF ANTHONY GABRIEL, INSPECTOR GENERAL, U.S. INFORMATION AGENCY

Mr. GABRIEL. Mr. Chairman, and members of the subcommittee, I would like to introduce Mr. DeMarco, who handled the audit work for the Office of Inspector General.

Mr. MICA. I apologize, Mr. DeMarco, I had the name of everyone else in the room but you; thank you for being with us.

Mr. GABRIEL. Just from an auditing perspective I would like to recognize our two auditors that actually did the detail work, Gregory Pence and Forrest Peters. And as you have already introduced Mr. Harvey, I would like to proceed. As you mentioned we do have a full text of our statement for the record. I will summarize.

We welcome this opportunity to describe our efforts to determine whether or not U.S. Government funds were used by Friends of the Democratic Center in Central America, PRODEMCA, to finance advertisements supporting military aid to the Nicaraguan resistance. The work was undertaken at the request of the subcommittee. We began our work in April after meeting with subcommittee staff.

Our effort was directed toward two approaches. First, we wanted to establish how and when the advertisements were paid and the source of funds used to make payment.

Second, we wanted to find out what happened to the U.S. Government funds transferred to PRODEMCA under three separate National Endowment for Democracy [NED] subgrants. As a result of this effort the following information was obtained.

First with regard to advertisements supporting military aid to the Nicaraguan resistance, I will cover source of funds and payments for advertising. PRODEMCA purchased advertisements in the Washington Post, the Washington Times, and the New York Times.

Payment was made by five separate certified checks dated between March 13, 1986, and March 18, 1986. The checks were drawn on PRODEMCA's checking account at the Security National Bank.

This account, according to a PRODEMCA official, contains funds obtained through PRODEMCA's fund raising efforts, and individual donations.

Our analysis of bank statements received from the Security National Bank for the period beginning June 28, 1985, through March 31, 1986, showed that PRODEMCA received total deposits of approximately \$196,000. We traced these deposits to a separate list of private donations and contributions maintained by PRODEMCA.

Also the March 1986 bank statement showed a balance on hand prior to the issuance of the certified checks that was sufficient to cover the cost of the purchased advertisements.

We also verified that the certified checks were recorded as a charged against the checking account at the Security National Bank. In addition, we verified that the amounts recorded in the bank statement were the same as shown on the customer's receipt for a certified check.

We found no discrepancies.

I will now cover use of Federal funds provided to PRODEMCA under NED subgrants. PRODEMCA was authorized three subgrants with a total value of \$351,500 between January 1985, and March 1986. As of March 31, 1986, \$215,348 was transferred to PRODEMCA by NED to carry out the purposes of of these three grants.

To assure ourselves that grant funds were used for the purposes intended we verified that the funds transferred by NED to PRODEMCA were recorded in PRODEMCA's bank accounts and that expenditures from these accounts were supported by invoices, receipts and other documents evidencing that the expenditures were made for the purposes consistent with the grants. Each of the grants was reviewed separately, and they are included in my detailed statement.

In summary, our audit report which was provided to the chairman, concluded that PRODEMCA used funds obtained from private donations and contributions to pay for the advertisements supporting military aid to the Nicaraguan resistance. Government program funds were used for the purposes consistent with the grants.

This concludes a summary of our prepared testimony, Mr. Chairman. We would be happy to respond to any questions the subcommittee may have.

Thank you.

[The prepared statement of Mr. Gabriel follows:]

PREPARED STATEMENT OF ANTHONY J. GABRIEL, INSPECTOR GENERAL,
U.S. INFORMATION AGENCY

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

WE WELCOME THIS OPPORTUNITY TO DESCRIBE OUR EFFORTS TO DETERMINE WHETHER OR NOT UNITED STATES GOVERNMENT FUNDS WERE USED BY FRIENDS OF THE DEMOCRATIC CENTER IN CENTRAL AMERICA (PRODEMCA) TO FINANCE ADVERTISEMENTS SUPPORTING MILITARY AID TO THE NICARAGUAN RESISTANCE. THE WORK WAS UNDERTAKEN AT THE REQUEST OF THE SUBCOMMITTEE. WE BEGAN OUR WORK IN APRIL AFTER MEETING WITH SUBCOMMITTEE STAFF.

OUR EFFORT WAS DIRECTED TOWARD TWO APPROACHES. FIRST, WE WANTED TO ESTABLISH HOW AND WHEN THE ADVERTISEMENTS WERE PAID FOR AND THE SOURCE OF FUNDS USED TO MAKE PAYMENT. SECONDLY, WE

WANTED TO FIND OUT WHAT HAPPENED TO THE U.S. GOVERNMENT FUNDS TRANSFERRED TO PRODEMCA UNDER THREE SEPARATE NATIONAL ENDOWMENT FOR DEMOCRACY (NED) SUB-GRANTS. AS A RESULT OF THIS EFFORT THE FOLLOWING INFORMATION WAS OBTAINED.

ADVERTISEMENTS SUPPORTING MILITARY AID
TO THE NICARAGUAN RESISTANCE

PRODEMCA PURCHASED ADVERTISEMENTS IN THE WASHINGTON POST, THE WASHINGTON TIMES AND THE NEW YORK TIMES. PAYMENT WAS MADE BY FIVE SEPARATE CERTIFIED CHECKS DATED BETWEEN MARCH 13, 1986, AND MARCH 18, 1986. THE CHECKS WERE DRAWN ON PRODEMCA'S CHECKING ACCOUNT AT THE SECURITY NATIONAL BANK. THIS ACCOUNT, ACCORDING TO A PRODEMCA OFFICIAL, CONTAINS FUNDS OBTAINED THROUGH PRODEMCA'S FUND RAISING EFFORTS AND INDIVIDUAL DONATIONS.

OUR ANALYSIS OF BANK STATEMENTS RECEIVED FROM THE SECURITY NATIONAL BANK FOR THE PERIOD BEGINNING JUNE 28, 1985, THROUGH MARCH 31, 1986, SHOWED THAT PRODEMCA RECEIVED TOTAL DEPOSITS OF \$196,070. WE TRACED THESE DEPOSITS TO A SEPARATE LIST OF PRIVATE DONATIONS AND CONTRIBUTIONS MAINTAINED BY PRODEMCA. ALSO, THE MARCH 1986 BANK STATEMENT SHOWED A BALANCE ON HAND PRIOR TO THE ISSUANCE OF THE CERTIFIED CHECKS THAT WAS SUFFICIENT TO COVER THE COST OF THE PURCHASED ADVERTISEMENTS.

WE ALSO VERIFIED THAT THE CERTIFIED CHECKS WERE RECORDED AS A CHARGE AGAINST THE CHECKING ACCOUNT AT THE SECURITY NATIONAL BANK. IN ADDITION, WE VERIFIED THAT THE AMOUNTS RECORDED IN THE BANK STATEMENT WERE THE SAME AS THE CUSTOMER'S RECEIPT FOR A CERTIFIED CHECK.

WE FOUND NO DISCREPANCIES.

USE OF FUNDS PROVIDED TO PRODEMCA
UNDER NED SUB-GRANTS

PRODEMCA RECEIVED THREE SUB-GRANTS WITH A TOTAL VALUE OF \$351,500 BETWEEN JANUARY 1985 AND MARCH 1986. AS OF MARCH 31, 1986, \$215,348 WAS TRANSFERRED TO PRODEMCA BY NED TO CARRY OUT THE PURPOSES OF THESE THREE GRANTS. TO ASSURE OURSELVES THAT GRANT FUNDS WERE USED FOR THE PURPOSES INTENDED, WE VERIFIED THAT THE FUNDS TRANSFERRED BY NED TO PRODEMCA WERE RECORDED IN PRODEMCA'S BANK ACCOUNTS AND THAT EXPENDITURES FROM THESE ACCOUNTS WERE SUPPORTED BY INVOICES, RECEIPTS AND OTHER DOCUMENTS EVIDENCING THAT THE EXPENDITURES WERE MADE FOR PURPOSES CONSISTENT WITH THE GRANTS. EACH OF THE GRANTS WAS REVIEWED SEPARATELY. THE RESULTS ARE AS FOLLOWS:

GRANT #85-524-E-024-03.0 DATED JANUARY 11, 1985, FOR \$100,000 COVERED THE PERIOD JANUARY THROUGH OCTOBER 1985. THE PURPOSE OF THIS GRANT WAS TO PROVIDE SUPPLIES AND SERVICES TO

LA PRENSA, A NICARAGUAN NEWSPAPER. OF THE \$100,000, \$93,000 WAS DIRECT COST FOR SUPPLIES AND NEWS SERVICES AND \$7,000 WAS FOR PRODEMCA'S ADMINISTRATIVE EXPENSES.

THE \$100,000 WAS TRANSFERRED BY NED TO PRODEMCA'S NEW YORK BANK ACCOUNT IN INCREMENTS OVER THE PERIOD OF THE GRANT. THIS ACCOUNT ALSO INCLUDED PRIVATELY RAISED FUNDS. PRODEMCA IN TURN TRANSFERRED \$93,000 TO INTERNATIONAL PURCHASING AND EXPORT, INC. (IPE) A PURCHASING AGENT FOR LA PRENSA. WE VERIFIED IPE'S EXPENDITURES FOR SUPPLIES AND SERVICES TO INVOICES AND BILLS OF LADING. WE REVIEWED CHECKS MADE OUT TO SUPPLIERS AND CALLED SELECTED SUPPLIERS TO VERIFY THAT PAYMENT WAS RECEIVED. IN ADDITION, WE REVIEWED BILLS PAID BY PRODEMCA FOR ADMINISTRATIVE EXPENDITURES.

IN ADDITION, A CERTIFIED PUBLIC ACCOUNTING FIRM AUDITING THIS GRANT FOUND "NO EVIDENCE OF IMPROPER EXPENDITURES". IN THIS REGARD, THE FIRM CHECKED TO ASSURE THAT CASH EXPENDITURES WERE MADE IN ACCORDANCE WITH THE GRANT AGREEMENT AND THAT SUCH EXPENDITURES WERE SUPPORTED BY ADEQUATE DOCUMENTATION.

IN OUR VIEW, THE \$93,000 IN PROGRAM FUNDS WERE USED FOR THE PURPOSES INTENDED AND ADMINISTRATIVE EXPENSES OF \$7,000 ARE CONSIDERED REASONABLE.

GRANT 85-524-P-024-08.0, DATED AUGUST 22, 1985, FOR \$200,000, COVERED THE PERIOD MAY 1985 THROUGH JUNE 1986. THE PURPOSE OF THIS GRANT WAS TO ASSIST IN THE ESTABLISHMENT OF A DEMOCRATIC STUDIES CENTER IN MANAGUA AND TO FINANCE THE TRANSLATION, PUBLICATION AND DISTRIBUTION OF NICARAGUAN PERMANENT COMMISSION ON HUMAN RIGHTS DOCUMENTS. OF THE \$200,000 TOTAL GRANT, \$125,000 WAS FOR DIRECT COSTS RELATED TO THE DEMOCRATIC STUDIES CENTER AND \$44,000 WAS ALLOCATED TO DIRECT COSTS RELATED TO THE PERMANENT COMMISSION. THE REMAINING \$31,000 WAS BUDGETED FOR ADMINISTRATIVE EXPENSES RELATED TO THE TWO GRANT PURPOSES.

AS OF MARCH 31, 1986, NED TRANSFERRED A TOTAL OF \$64,000 TO PRODEMCA'S WASHINGTON BANK ACCOUNT WHICH WAS A SEPARATE ACCOUNT FOR GOVERNMENT FUNDS. PRODEMCA IN TURN TRANSFERRED \$46,000 TO PROGRAM PARTICIPANTS. WE REVIEWED PAYMENT VOUCHERS AND OTHER DOCUMENTATION SUPPORTING PAYMENTS TO PROGRAM PARTICIPANTS AND REVIEWED DOCUMENTATION SUPPORTING PAYMENTS MADE FOR ADMINISTRATIVE EXPENSES. NO EXCEPTIONS WERE FOUND.

GRANT 86-524-E-024-17.0, DATED MARCH 4, 1986, FOR \$51,500 COVERED THE PERIOD MARCH THROUGH MAY 1986. THE PURPOSE OF THIS GRANT WAS TO ASSIST LA PRENSA IN PROVIDING PRINTING SUPPLIES, NEWS SERVICES AND SPARE PARTS FOR CONTINUED PUBLICATION. OF THE \$51,500, \$50,000 WAS FOR DIRECT PROGRAM COSTS AND THE BALANCE OF \$1,500 WAS FOR ADMINISTRATIVE EXPENSES.

THE MONEY WAS TRANSFERRED BY NED TO PRODEMCA IN MARCH 1986 AND DEPOSITED IN THE BANK ACCOUNT PRODEMCA USES FOR GOVERNMENT FUNDS. PRODEMCA IN TURN TRANSFERRED \$50,000 TO LA PRENSA'S PURCHASING AGENT. WE REVIEWED INVOICES AND CHECKS RELATED TO THE PURCHASING AGENT'S PAYMENTS FOR SUPPLIES AND SERVICES, AND VERIFIED THE TRANSACTIONS WITH THE AGENT'S SUPPLIERS AND BANK. AS A RESULT, WE CONCLUDED THAT CASH EXPENDITURES WERE MADE IN ACCORDANCE WITH THE GRANT AGREEMENT AND THAT THE EXPENDITURES WERE SUPPORTED BY ADEQUATE DOCUMENTATION.

THE AUDIT REPORT, WHICH WAS PROVIDED TO THE CHAIRMAN, CONCLUDED THAT PRODEMCA USED FUNDS OBTAINED FROM PRIVATE DONATIONS AND CONTRIBUTIONS TO PAY FOR THE ADVERTISEMENTS SUPPORTING MILITARY AID TO THE NICARAGUAN RESISTANCE. GOVERNMENT PROGRAM FUNDS WERE USED FOR PURPOSES CONSISTENT WITH THE GRANTS.

THIS CONCLUDES MY TESTIMONY MR. CHAIRMAN. WE WOULD BE HAPPY TO RESPOND TO ANY QUESTIONS THE SUBCOMMITTEE MAY HAVE.

Mr. MICA. I think there probably is only one question. You are saying, in effect, that there was no Government money used; it was all separate; you traced it all back; You have given them a clean bill of health.

The only question that would remain for me is was there any Government money used, in effect, in the administration of this or any inappropriate activity as a result of Government funds being granted to the groups that bought these ads?

Mr. GABRIEL. We found no inappropriate activity, sir.

Mr. MICA. None at all; no administrative money at all, nothing?

Mr. GABRIEL. None at all.

Mr. MICA. I don't have any additional questions.

Ms. Snowe?

Mr. MCCAIN. Mr. Chairman, I would just like to comment, I am certainly glad that we have this matter put to rest. I view it as another invariable smokescreen of charges and allegations that are aimed at undermining our attempt to aid those who are fighting for freedom in Nicaragua, and also an attempt to undermine what NED is doing. I am glad we are able to put this to rest.

Unfortunately, I am sure there will be many others in the future, but I am glad we put this little fire out. I am sure there will be others.

I appreciate your efforts, Mr. Gabriel, and that of your many hours that your auditors had to put in in order to arrive at these conclusions.

Mr. MICA. Mr. Smith.

Mr. SMITH. Yes, thank you, Mr. Chairman.

You went over the first part of your statement, Mr. Gabriel, by talking about the privately raised funds which went in the Security National Bank. Where was that account maintained?

Mr. GABRIEL. Where was it maintained?

Mr. SMITH. Yes, was it the same New York account that the moneys from NED were deposited in?

Mr. DEMARCO. The account with Security National Bank is in Washington.

Mr. SMITH. Washington.

Mr. DEMARCO. There was another bank in New York where PRODEMCA kept funds from both the Government and private donations.

Mr. SMITH. Did you check the record of that account in New York in which the NED deposits were made to see whether or not they had paid for any advertisements out of that account?

Mr. DEMARCO. Yes, sir.

Mr. SMITH. Did they?

Mr. DEMARCO. No, sir.

Mr. SMITH. I have no further questions.

Mr. MICA. Ms. Snowe.

Ms. SNOWE. Thank you, Mr. Chairman.

Mr. Gabriel, is there any way we can avoid this kind of controversy in the future, would you make any recommendations?

Mr. GABRIEL. Well, I guess controversy stems from questions that get raised. But I feel the key to this is the accountability and control and the and separation of funds. As long as the custodians are

handling it that way, I guess there is nothing that can preclude people from asking questions.

But your oversight hearing serves to make things public and have things checked when questions arise. I don't know other than accountability and separation how something like that can be controlled.

Ms. SNOWE. Do you think that sensitive projects should be funded by NED?

Mr. GABRIEL. I have not been into the grant business that long, but sensitive projects have to be funded in some manner. As you know from where you all work, there are direct appropriations, when you can make them direct, and if a project is worthwhile doing, then it has to be done, it has to be funded. Grant awards are an alternative to direct appropriations. That is about all I can answer in a general way at this point.

Ms. SNOWE. Thank you.

Mr. MICA. Mr. Gilman.

Mr. GILMAN. Thank you, Mr. Chairman.

In looking over the auditing process were there any recommendations for improving the auditing process that you came up with?

Mr. GABRIEL. This audit response was quite narrow in scope. We are about to begin a much broader audit. At this point we are not prepared to present any recommendations.

As you all know we are to proceed into a more detailed examination. This was the first cut to answer the chairman's question and try to get him a quick response.

Mr. MICA. If I may advise the committee. I did request a rapid audit on the PRODEMCA question, and as you know, and I want to say this publicly, I was outraged at the reports, but the reports were not correct.

There were no moneys used and it was not commingled. I am pleased to hear that. I think that has been very helpful.

With regard to the overall audit, I think that might have been Mr. McCain's provision that the overall audit ability and procedures that USIA has over NED, they are just moving into that and expect to report to us upon completion.

Mr. GABRIEL. Yes, sir.

Mr. GILMAN. Is that a continuing responsibility that you have of auditing NED?

Mr. GABRIEL. Well, a question has come up within the last couple of days, I don't view it as anything exceptional. As an Office of Inspector General our thrust is to audit where we feel audit attention is necessary as long as we don't duplicate the work of the GAO. However, in the last couple of days I did receive a memo from NED raising a question whether we can apply cost principles A-122, that is whether they generally apply to the type of audit we want to initiate.

At this point, if there was any legal issue involved, it would have to be resolved. From the perspective of audit I would feel that we would proceed in the context of their suggestions. We would generally apply the A-122 cost principles, and find out what is the specific issue that they are raising.

At this point I am not sure that I can answer the specific. I don't know.

Mr. GILMAN. What is specifically the A-122 cost principle?

Mr. GABRIEL. It is the criteria that is set for the allowability of cost including overhead charges. But I would like Mr. DeMarco, who is more involved in the detailed examinations, to expand on that somewhat.

Mr. DEMARCO. A-122, sir, are the cost principles that govern nonprofit organizations. It is an OMB document. The document describes, for grantees, how to develop indirect expense rates, and what different methodologies, can be used. It also describes allowable cost, allocable cost, and a reasonable cost. It gives numerous examples of the types of expenses that one could expect to have paid by the Government and what types of expenses would not be paid by the Government.

Mr. GILMAN. Did you hear the prior witness who testified with regard to administrative costs. We talked about an increase from 4 to 6 percent; what about the criteria of administrative for an agency of this nature, what do you say is a standard?

Mr. DEMARCO. Well, I see the criteria as being expressed in A-122.

You mean in terms of the amount?

Mr. GILMAN. Yes.

Mr. DEMARCO. It is really very difficult to develop a standard, sir, because percentages for indirect overhead expenses really depend on what base you use to develop the percentage.

In the case of NED, they don't have an indirect overhead expense because all their expenses are charged direct to the Government. So in that case you need not come up with a percentage to allocate indirect expenses. But, some of their subgrantees would have an indirect expense rate expressed in terms of a percentage, and the percentage would depend on what base was used to develop the rate. It could be as much as 20 percent or 25 percent for nonprofit organizations.

In the case of NED, A-122 would apply to how they are spending their administrative expenses. Are they buying lunches for themselves; or are they not?

Are they incurring other costs considered unallowable; would their fringe benefits be extraordinarily high; or would they not?

A-122 discusses these subjects.

Mr. GILMAN. To your mind, is 6 percent an inordinate amount to be paying in administrative costs in a program of this nature?

Mr. DEMARCO. We have not audited this part of it as of yet, sir, so it would depend on how they are incurring these costs. If they are not doing anything administratively, 6 percent could be high. If they are doing a lot of administrative work, it could be very low. It would depend upon the nature of their activity.

Mr. GILMAN. So then really not too many standards apply across the board with respect to what you consider an appropriate percentage for administrative costs.

Mr. DEMARCO. No; you would have to look at it individually and see how they apply their indirect cost rates against what base.

Mr. GILMAN. How long is it going to take you to complete your audit?

Mr. DEMARCO. I think it would take 8 to 9 weeks, once we get started again.

Mr. GILMAN. What will you be auditing; how long a period of time?

Mr. DEMARCO. We will be auditing both fiscal year 1984 and 1985. We will be auditing the administrative expenses as incurred by NED, and we will select one or two discretionary grantees, and be reviewing their administrative expenses as well.

Mr. GILMAN. And how many people will be needed to do that kind of an audit?

Mr. DEMARCO. It will be myself and two others.

Mr. GILMAN. And to do the kind of field auditing that they were talking about previously in the previous panel, how many in personnel would you need to do that kind of a field audit?

Mr. DEMARCO. I really could not answer that, sir, it depends on the extent of work, what criteria they have laid down to perform their evaluation, what they require in the way of reporting to them, and whether they targeted their audit based on criteria that could be developed to give indicators of problems. It all depends on how good they develop their methodology for evaluation or audit.

Mr. GILMAN. When you complete your evaluation will you be making some specific recommendations with regard to how they should tighten up their auditing procedure.

Mr. DEMARCO. We do not plan to, sir, because we thought GAO gave adequate coverage to the programming aspect of this. We were going to limit our review to administrative expenses.

Mr. GILMAN. Then the basic objective of your review then is to find whether there has been any violation of the utilization of funds for administration.

Mr. DEMARCO. Yes, we are curtailing our effort primarily because of the extensive work that GAO has done.

Mr. GILMAN. Thank you.

Thank you, Mr. Chairman.

Mr. MICA. You are welcome.

The record should show that at this time the committee has learned unequivocally that there are administrative expenses for NED; let the record show that.

Mr. Smith.

Mr. SMITH. Thank you, Mr. Chairman.

I have a couple of followup questions. First of all, there was some commingling of accounts, according to your statement, in New York, that private funds, and Federal moneys were put in that account out of which La Prensa says that there was some. Did you find that to be insignificant, I mean, you just mentioned it.

Mr. DEMARCO. Yes, sir; the total amount that was transferred to that account for PRODEMCA by the Government was \$100,000; \$93,000 of that was transferred to an organization in Miami to purchase news services and printing services for La Prensa; \$7,000 was left to pay for the Government's share of administrative expenses of the the New York operation.

They, in effect, had about \$115,000 worth of administrative expenses, which they paid for from the funds in that bank. Those funds were generated by private contributions. We felt the \$7,000 in administrative expenses that were attached to the Government grant was really relatively insignificant in terms of PRODEMCA's

total administrative expenses, and probably allowed the Government to bear its fair share of the administrative expense cost.

Mr. SMITH. But there was commingling; do you think that is advisable in any event?

Mr. DEMARCO. Advisable; no, sir.

Mr. SMITH. So one recommendation that you might make would be that there would be no commingling of any Government funds derived through funding in the USIA budget, and all their private accounts should be maintained separately from the accounts used to deposit the moneys that the Federal Government provides to NED? Wouldn't that be an appropriate better, traceable kind of system?

Mr. DEMARCO. It sure makes auditing simple. But organizations are establishing their own accounting and administrative systems, however, and they do things a certain way. The real problem with commingling is that money is fungible and loses its identity. It makes it much simpler if you have separate accounts.

But the real key is if they have a very good accounting system, that is easily traceable, and you can identify where the Government money is going and that it is being used for Government purposes, there is no real particular reason then not to commingle.

Mr. SMITH. Except that it lends credibility to arguments that have no substance—

Mr. DEMARCO. Yes.

Mr. SMITH [continuing]. That they commingle funds and that they use them thereafter, and Government money paid for these advertisements. And if the Government and the private money were in the same account there is credibility, even if you can trace it back 3 months later, after you do an audit, with two people plus yourself, et cetera.

Mr. GABRIEL, you talked about being the inspector general and having no problem going in auditing anywhere where you feel it is appropriate; doesn't the inspector general at USIA have an ongoing audit program, auditing every program?

Why should you wait until something crops up, when, in fact, all this money that is given by us through USIA to the various programs; must be traced by having an ongoing audit program on every part of the USIA funding?

Mr. GABRIEL. We do, sir; we go through typically the same requirements as any office of inspector general. You come up with an annual audit plan, and you prioritize and set your audit plans based on significance, dollars, congressional interest. Yes, sir, we do—

Mr. SMITH. Did you plug in NED into your annual plan?

Mr. GABRIEL. Yes, sir; NED was plugged in, but we are also aware of the GAO audit and we were coordinating with them to be sure we weren't tripping over each other at the same time. But it was in our audit program—

Mr. SMITH. But the GAO audit was just recently authorized or at least requested; what about the fiscal year 1984?

Mr. GABRIEL. Our NED audit is in our fiscal year 1986 plan which we initiated about the beginning of the fiscal year.

Mr. SMITH. So then we can with some degree of assurance feel certain that your office is going to be auditing the various grantees of money from us to USIA, USIA and all the other programs?

Mr. GABRIEL. Like any organization with limitations and constraints within the limits of our resources, yes, sir. But that we can't—

Mr. SMITH. We always get the disclaimer, Mr. Gabriel.

Mr. GABRIEL. We wouldn't end up, as we sometimes have, with backlogs.

Mr. SMITH. I understand; but I mean—

Mr. GABRIEL. But the process, as your question implies, and as directly questioned, yes, sir, we do have an annual audit plan, and we go through the process of—

Mr. SMITH. You don't wait for the rock to begin to smell before you turn it over?

Mr. GABRIEL. No, sir; except when the rock is thrown you sometimes have to shift priorities.

Mr. SMITH. We all understand that, too.

Mr. MICA. Thank you, Mr. Gabriel, and Mr. DeMarco, you may wish to remain at the table, but I think we will proceed to Mr. Harvey, and if you would like to leave, please feel free.

Mr. Harvey, I guess our key question—I understand you don't have a written statement to submit—this is in regard to the Freedom of Information Act, its implementation and how it is being handled by NED. Could you just comment on that?

STATEMENT OF TOM HARVEY, GENERAL COUNSEL U.S. INFORMATION AGENCY

Mr. HARVEY. Thank you, Mr. Chairman; I do not have a written statement—

Mr. MICA. Included in the record?

Mr. HARVEY. Which I would like to not have included in the record.

Attorneys from my office have been working with the staff of NED and their attorneys since the adoption of the authorization nearly a year ago last August, which imposed the Freedom of Information Act requirement on NED. They have been doing this in consultation with members of your staff and other members of the congressional committees that have had a particular interest in this matter.

Because NED is somewhat of a hybrid and because the Freedom of Information Act generally applies only specifically to Government agencies, it has required a fair amount of work to assure that the congressional intent was carried out in a workable way. We now have draft regulations. We will probably be submitting those for publication in the Federal Register in a week or so, there then is a period within which people have an opportunity to comment on those draft regulations. We would hope that they would be adopted shortly thereafter.

It is my understanding that NED has received two requests under the Freedom of Information Act to date, they have provided all of the material that was requested in those two requests to the individuals that submitted them; and there has been no difficulty.

Where things get interesting is, should NED decide that they would like not to submit the material to the person requesting it, then the matter comes to the agency. Should we agree with NED that the material not be submitted, and should we go to litigation, then it is an expense for the agency to defend that litigation.

It is that sort of thing that has given rise to difficulties in drafting the regulations. I don't anticipate any problems.

Mr. MICA. And again, you expect the regulations to be published next week?

Mr. HARVEY. My staff has told me that they would hope to have them published within a week.

Mr. MICA. All right.

Are there any questions on this from the committee members?

Ms. SNOWE.

Ms. SNOWE. I don't know if you can answer this, Mr. Harvey, maybe it is a question for Mr. Gabriel.

But getting back to the sensitive nature of some of these projects, and because we are going to require a full disclosure under the Freedom of Information Act, wouldn't it be critical to establish separate funds, those that come from NED and those that come from private sources, when they are engaged in sensitive projects, to avoid the kind of controversies that develop. For example, the press is going to be looking at accounting reports, that can't be easily traced, and unfortunately the damage has been done once it reaches the newspapers and the overall media.

I am wondering because of fuller disclosure and obviously this NED thing, concerned in the past that some of the information that could be divulged could embarrass recipients or certain individuals because of the unique nature of some these projects in certain countries. And perhaps separate funds, as Mr. Smith indicated would be critical to avoid the kind of controversy that developed recently?

Mr. HARVEY. Well, I certainly would think that if I were seeking funding from NED for something that I considered to be a sensitive project, I would want to do that because I would not care to have that documentation available under the Freedom of Information Act. But that is me speaking as if I were a grant applicant to NED.

My idea would be to use the NED funding for things which could bear the light of day, and private funding from other sources for these sensitive things.

Mr. SMITH. Would the gentlelady yield?

Ms. SNOWE. Yes; I would be glad to.

Mr. SMITH. Is it conceivable that NED's rule and regulations should require significant accounting by virtue of independent accounts? It doesn't cost anything to open up a separate bank account. It is very easy to do that.

You walk in with the first grantee's check, sit down in a bank, and open up an account.

Why wouldn't we require grantees from NED to maintain separate accounts? Why should we let them commingle at all?

Doesn't it give us a better handle and provide them with an appropriate—to use your analogy, an appropriate cover where they only have to be subjected to FOIA with respect to that account, and

everything else would be subject to whatever other verifications are available, but would have nothing to do with the NED grants?

I don't see why we should leave it up to them. Why don't we make it mandatory?

Mr. MICA. If the gentlelady and the gentleman would yield even further?

Does USIA allow its grantees to commingle their various funds?

Mr. HARVEY. I believe that Mr. DeMarco touched on this point. If you have an adequate accounting system the commingling—we grant to Harvard University, for example, for specific academic programs, I frankly, don't know whether Harvard has——

Mr. SMITH. That is a radical organization, you know?

Mr. HARVEY. I have expressed some concern to the director about that.

On a sampling basis, on a regular basis the Office of Inspector General does audits of those grants. I don't think that there has ever been a problem of where that money was, because if people follow the auditing standards and have an adequate accounting system in place, that money can be traced.

Now perhaps, you are right, perhaps it would be a good idea to have separate accounts for this particular——

Mr. SMITH. It makes a difference this year because the in's and the out's are going to be much less, Mr. DeMarco—if the gentlelady would continue to yield—suppose you have an organization that has a large amount of private donations, and large expenses, in's and out's, they literally have to go through thousands of pieces of records rather than ten's or hundred's. Why have a system which requires you to track back in a very significantly heavily trafficked account, when in fact, you could do it with one account that separate small contributions are in because there are two, or three, or four checks, or even one, and maybe just a small number of out's, of checks?

It doesn't make sense to me to go and lay in a whole accounting procedure which requires you to do more work than you might have to do when you require that they must keep our funds in a separate, noncommingled account.

Mr. MICA. If the gentleman would yield on that?

Mr. SMITH. I thank the gentlelady for yielding, she——

Ms. SNOWE. My pleasure.

Mr. MICA. I would say this plays the devil's advocate, though. If you have each separate account it wouldn't necessarily mean that you wouldn't have to look at all the others, because indeed if one were trying to use funds inappropriately, they would just put it in another account and you would entirely miss it.

So, it really depends on the good faith of the people you are dealing with. I think from a public perception standpoint, separate accounts are very easy to identify.

From an auditors standpoint, or CPA's standpoint, to look at a sheet, a balance sheet, and look at the assets and liabilities and expenditures and so on, as long as they are appropriated from the right accounts, that is what you are concerned with.

For us, and maybe the key question would be even more basic, are you saying, or is anyone saying that NED should not, or should

maybe take into consideration other activities of people who receive grants when they grant money for a specific purpose. Even though you give PRODEMCA a clean bill of health, it is probably poor judgment for an organization that had so much interest in Government funding and activity to take out ads opposing something that was before the Congress a week later. I happen to be on their side on the issue. It was just very poor judgment.

Now, is that something we put into the law with regard to NED, that they look at all their other activities and say if you are in an area that is before the Congress you don't get a grant. I don't know; that is a tough one.

Do you have a comment on that; should we consider all their other activities?

Mr. HARVEY. I would think that would be something that would come up in NED's evaluation of a particular grant recipient and their monitoring of the grants going to that particular entity. I personally would not think that would be something that ought to be included in law because I think you get some things that are pretty difficult to define here. I don't know that you could do it adequately.

For example, what is a sensitive grant. Ms. McCabe said earlier if we are attempting to further pluralism in a right or left leaning dictatorship, receipt of funding from an organization that ultimately got that money from the U.S. Government could be pretty sensitive to some individual there.

But how do you define those things? I frankly, don't know. I think that common sense, and the grant monitoring and control process within NED should be where that is controlled.

Mr. SMITH. Would the gentlelady yield again?

Ms. SNOWE. Yes.

Mr. SMITH. I appreciate it.

I want to, if I can with reference to what the chairman said, frankly be a little bit cautious. First of all, there are a number of organizations in this country that have both private and public funding sources. And there has been controversy over the last few years about them lobbying, and they have maintained now strict independence of the private funds out of which they lobby, and the public funds, which, as we all know, in the area of antiabortion activities, et cetera, have generated some significant problems.

I would be a little bit hesitant—as the chairman has suggested, to say maybe they shouldn't have been doing that. I think every organization has a right to take a stand if they wish, as long as it is not with Government money that they are lobbying the Government, which is the bone of contention.

But with reference to NED, if I am not mistaken, NED cannot work directly with foreign countries, it has to work for a U.S. private sector company and pass the money through, and therefore you have a situation to try and find the U.S. private sector company that doesn't have possibly some lobbying effort going on in some area—I mean it might hamper significantly the ability of NED to do what we have given them the obligation to do under the authorizing language.

Mr. MICA. If the gentlelady would yield?

Ms. SNOWE. If I can reclaim.

Mr. SMITH. A fountain of time.

Ms. SNOWE. It is unusual for a minority.

Mr. MICA. I certainly wasn't advocating that that is the route we should take, but it simply becomes part of the question. Really, if you are talking about all of these separate accounts, because you are concerned that they are involved in activity that is controversial and really not a part of Government money, are you really saying, in effect, that you are questioning whether or not a grantee should get these funds if they are doing these other things?

That is a question that is going to come up. In fact, I will tell you that is a question that many of our colleagues have.

How can NED be involved in this group when they would do this?

It is a tie whether you wish it to be or not.

I have no further questions.

Ms. SNOWE. May I just ask one other, Mr. Chairman; can I have my time back?

What kind of consultation takes place between NED and the State Department about some of the grants?

As you know in the last year's authorization we required consultation between the National Endowment for Democracy and the State Department.

Mr. HARVEY. I don't know myself. Carl Gershman, president of NED is here in the room this morning, as is Ambassador Gerald Helman, who is representing the State Department. Perhaps, they are scheduled to testify. I am sure they can address that.

Ms. SNOWE. Thank you.

Mr. MICA. Thank you; we may present additional questions in writing.

Thank you very much.

We thank you very much for being with us, Mr. Ambassador. We have with us for the record, Ambassador Gerald Helman, Deputy to the Under Secretary for Political Affairs, of the Department of State.

I would tell you Mr. Ambassador, our time is running short. We would ask you to summarize and put your written statement in the record. With that you may proceed.

**STATEMENT OF AMBASSADOR GERALD B. HELMAN, DEPUTY TO
THE UNDER SECRETARY OF STATE FOR POLITICAL AFFAIRS,
U.S. DEPARTMENT OF STATE**

Ambassador HELMAN. Thank you, Mr. Chairman. I thank the committee for inviting me to participate. Very simply, sir, there is in place, pursuant to the request of Congress, a system of formal consultations with the Endowment.

Mr. MICA. Can we ask you to pull that up a little bit?

Ambassador HELMAN. I am sorry.

There is a formal system of consultation in place, between the State Department and the National Endowment for Democracy. I think just as importantly and in keeping with the clear intent of Congress there is an informal and very useful system of consultations that has grown up over the last few years which I believe meets and addresses the kinds of concerns that have been ex-

pressed in past about the relationship between the Endowment and the Department of State.

We find this relationship to be satisfactory, beneficial, productive, and we hope useful to the Endowment, certainly the Endowment and its work have been excellent and enjoy the administration's very strong support.

I will be happy to take any questions that you have, sir.

[The prepared statement of Ambassador Helman follows:]

PREPARED STATEMENT OF GERALD B. HELMAN, DEPUTY TO THE UNDER SECRETARY OF
STATE FOR POLITICAL AFFAIRS

Mr. Chairman and members of the Committee, thank you for inviting me to appear before you to discuss the work of the National Endowment for Democracy. I understand that your primary interest in asking me to testify is to determine how the legislatively mandated consultation procedure between NED and the State Department is working. Is it helpful to the Department and its posts overseas, and is it timely?

Before addressing these specific issues, I would like to provide some background which I believe will help place the Department's role and attitude in perspective.

In June of 1982, President Reagan addressed the Members of Parliament in London and proposed "to foster the infrastructure of democracy, the system of a free press, unions, political parties, universities, which allows a people to choose their own way, to develop their own culture, to reconcile their own differences through peaceful means..... We in America now intend to take additional steps, as many of our allies have already done, toward realizing this same goal. The chairmen and other leaders of the national Republican and Democratic Party organizations are initiating a study to determine how the United States can best contribute as a nation to the global campaign for democracy now gathering force..... I look forward to receiving their recommendations and to working with these institutions and the Congress in the common task of

strengthening democracy throughout the world.... It is time that we committed ourselves as a nation - in both the public and private sectors - to assisting democratic development."

The rest is history, but continuing history. The trend towards democratic development which was discernible in the '70's has become a strong current. There is no question but that democracy is the wave of the future and that peoples all over the world consider democracy as the best system of government under which to realize their aspirations for freedom, human rights and prosperity.

Moreover, the report which the President said he was anticipating led to the creation of the National Endowment for Democracy as an institution independent of the government and dedicated to the strengthening of democratic forces around the world. As the Committee is aware, the Endowment has enjoyed strong support from business, labor, and both of our political parties. It continues to have the warm endorsement and support of the Administration because of the good work which it has done and because the purposes for which it was established continue to be even more valid today.

Let me now turn to the precise question of consultations with the Department of State. I would like to address this question from two perspectives: formal consultations and informal consultations.

To implement the requirements of the legislation, the

National Endowment for Democracy and the Department have instituted a consultation process under which the NED provides its program proposals to the Department for comment prior to consideration of these proposals by the Endowment's Board. In consulting on these proposals, the Department understands that it has no responsibility to either approve or disapprove them, because such authority would be inconsistent with the independence of the Endowment. The Department's role as consultant is, therefore, to review and where appropriate comment on each proposal. The specific steps involved are the following:

A. The Endowment forwards to the Department, and specifically to my office, a copy of each proposal as it will be presented to the Endowment's Board.

B. My office then asks the appropriate desk in the Department to review the proposal and comment. The desks are free to consult with our embassies in the field.

C. I, on behalf of the Department, then inform the NED that the proposal has been reviewed. If there are any comments, written or oral, these are passed along directly to the Endowment.

That is the formal process of consultation. I am satisfied that it is working well, and in a fashion that meets the objectives of the legislation. It is helpful to the Department and to its posts overseas.

Now, I would like to turn to the existing system of informal consultations which I believe responds to the spirit of the legislation in that it helps assure that the Endowment has access to the experience and knowledge of the Department. From the inception of the Endowment and its associated institutes, the strong support of the Department for its activities has been reflected in a growing dialogue between various officials of the Endowment and its institutes and officials from the Department and our various Embassies overseas. We have encouraged this process and even though I cannot document each of these conversations, I know that there are daily discussions and interchanges of ideas. In the field, our Embassies have always been available to the Endowment and its institutes for advice and guidance. The Department has provided facilitative assistance to the Endowment and the institutes so that its activities overseas can proceed more smoothly. Our overseas Embassies have cooperated in setting up appointments, advising on activities and personalities. Both Departmental and Embassy officers have felt free to offer ideas for new programs or modification of present ones. Frequently when our Ambassadors return to Washington for consultations they call on the Endowment to discuss programs and to offer ideas. Uniformly, Departmental and embassy officers have welcomed the NED, its activities, and the opportunity to offer advice, while recognizing and approving of its independent, non-governmental status.

In closing, I want to underscore the important contributions which the Endowment and its associates have made to the strengthening of democracy. This is a broad, bipartisan national objective in which the Endowment is playing an important role. Speaking for the Department, I can say that we want to see a stronger Endowment with more activities and better financing so that it can continue its outstanding work.

Mr. MICA. Thank you.

You said precisely, you said satisfactory, you didn't say, great, excellent, good, wonderful.

Ambassador HELMAN. I will say, great, excellent, good and wonderful.

Mr. MICA. Tell me just a little about how the consultation proceeds.

I can tell you that sometimes we have consultation from the White House, or other executive agencies that are required to consult with the Congress, and they call us up at 7 o'clock and tell us that the bombing has commenced.

Give me just a little insight as to what kind of consultation—do you get a letter after the fact?

Ambassador HELMAN. No, sir. The formal consultations proceed as follows, on the basis of experience. Several weeks in advance of each board meeting the Endowment sends to the State Department a list of all of the proposals that will be presented to the board meeting, and the proposals themselves as they will be presented. I circulate those proposals to the appropriate desks in the Department of State. I ask for their comments, or no comments, if they have none; on that basis we respond in advance of the board meeting to the Endowment with comments or without comments, as the case might be. We encourage oral comments rather than written ones, if those would seem to be more appropriate. And that is the formal system of consultation.

By consultation I should add that we mean that we provide our comments, our advice, our counsel on given projects. The authority to consult does not include, in our view, the authority to say, yes or no to a particular project, because that would be inconsistent with the independence of the Endowment itself.

Mr. MICA. On that point, can you think of a specific project or projects where you have gone back to NED and said, we absolutely think this is a horrible idea, you shouldn't do it; and have they then done it?

Ambassador HELMAN. There are none.

Mr. MICA. There are none.

Ambassador HELMAN. I should add that we have had criticism of several projects, and then NED has decided to go ahead with them anyway, and in retrospect, NED was right. The projects were good and turned out to be quite beneficial. This is to suggest that the State Department isn't always right on these things.

Mr. MICA. Well, let me ask you about the spirit of cooperation. When you mentioned the criticism, they said, thanks for the criticism and proceeded, or they said, that is too bad we are going to do it anyhow, or we will try to address some of these as we proceed; was there a spirit of cooperation?

Ambassador HELMAN. There certainly is a spirit of cooperation. I should add that I described the formal system of consultation, consultation of record. What, I think, has grown up over the past couple of years is an informal system of consultation which I think has been most productive, hopefully, to the NED and to its associated institutes, and certainly has been productive and useful to the department, whereby we have encouraged the NED and its grant-

ees to talk to our desk officers in the State Department, to talk to our embassies, if that is appropriate, to seek their advice, ideas.

We have always felt free to offer our ideas or our advice with respect to particular projects. When American ambassadors, for example, come back for consultations to Washington, we have encouraged them to meet with the Endowment and its members, and to talk to them about various projects, discuss the implementation of those projects, or any ideas our people might have for additional projects that might be useful.

So I think that there has been a very useful even a rich and productive dialog between the department and its embassies, and the Endowment and its associated institutes, over the past year and a half and 2 years. We are certainly very pleased with it.

Mr. MICA. Well, that sounds pretty good to me.

Ms. SNOWE, any questions?

Ms. SNOWE. Just one, Mr. Chairman.

Ambassador Helman, you mentioned in your testimony on page 4, that, "Uniformly, departmental and embassy officers have welcomed the NED, its activities, and the opportunity to offer advice, while recognizing and approving of its independent, nongovernmental status."

When asked the question of the individuals representing the Government Accounting Office by Congressman McCain, Mr. Touraille said that there was some varied reaction among embassy officials concerning their projects and their involvement.

Could you respond to that, and elaborate on what has been the reception on these programs and projects abroad?

Ambassador HELMAN. I haven't heard from the GAO. They have never informed me of what they have discovered in their conversations.

I can say that I have not received either in writing, in formal or informal communications, or orally, any consistent pattern of criticism by any of our embassies of the Endowment or of any of its institutes. That doesn't mean that there haven't been some comments, even some critical comments about various projects.

But as far as the Endowment itself is concerned and its purposes and its work, I just have nothing as a matter of record.

Ms. SNOWE. Are embassy officials involved in the decisionmaking, or the consultation, I should say, when NED approaches the State Department in informing them of their activities and projects?

Ambassador HELMAN. That, in part, depends on each desk. Sometimes desks will ask their embassies about a particular project, sometimes they won't because they will feel confident they will know the embassies' views.

But I should say that when ambassadors come back they often talk to NED. When NED officials travel overseas our embassies try to provide them with facilitative assistance, with their ideas, and I think there is a very easy, informal, and useful discussion that goes on between our embassy officials and NED officials when they are overseas.

We have encouraged all embassy officers when they return, when there are NED programs involved to stop by and talk to the Endowment people. I haven't been privy to all of those conversa-

tions, but I do know, and I can document this as a matter of record, that there is a great deal of enthusiasm for the kind of work it has to do.

I should add that the enthusiasm is greatest in the case of our embassies in countries which you might say are on the cutting edge of democracy. Our Embassies in the Philippines, Haiti, Chile, South Africa, those are the embassies that understand the kind of work the Endowment can do. By Endowment I mean to incorporate the core grantees as well. They know the kind of work the Endowment can do, and I think are uniformly enthusiastic and believe more has to be done.

Ms. SNOWE. But the embassies are not consistently involved in the consultation process?

Ambassador HELMAN. No, they have not been consistently involved, although they are accessible. I leave that to the judgment of the particular desk in the State Department.

Ms. SNOWE. I see. Is the State Department involved in the consultation with respect to the overall direction of the projects, for example, any consideration given to geographical balance when grants are made?

Ambassador HELMAN. No; not as a formal matter of consultation, no. As I mentioned we feel free to offer our comments, offer our ideas, and we have. But we have never suggested that greater emphasis be put on one geographic region rather than another.

Ms. SNOWE. Thank you very much, Mr. Ambassador.

Mr. MICA. Mr. Ambassador, you have been a very positive witness.

Let me just ask this, is this the same NED that we have been reading about?

Ambassador HELMAN. Same NED.

Mr. MICA. I am pleased. I am a little surprised, no negatives to report to the committee, no problems that you are aware of?

Ambassador HELMAN. I think probably if there were a problem it would be basically any problem you would find in breaking in a new system, and engaging yourself—

Mr. MICA. I am pleased, and pleasantly surprised.

Would you like the power to say yes or no to a grant?

Ambassador HELMAN. No.

Mr. MICA. You wouldn't at all?

Ambassador HELMAN. No.

Mr. MICA. That even surprises me more.

Ambassador HELMAN. I think we appreciate the fact that—and I think it was one of your colleagues that made this comment earlier, that it is terribly important that NED be independent. There are some things that the State Department simply cannot do, and should not try to do in other countries. These are the kinds of activities, and some of them will be sensitive and some of them will be controversial, that the NED can undertake and should undertake, and I think do so to the great benefit of our country.

Mr. MICA. Well, I will accept your testimony, thank you for being with us, and tell you that I will not tell Secretary Shultz that you said there are things that the State Department should not be involved in. But it is on the record.

Ambassador HELMAN. I will tell him.

Mr. MICA. Thank you very much.
The subcommittee stands adjourned.
[Whereupon, at 11:45 a.m., the hearing adjourned.]

OVERSIGHT OF THE NATIONAL ENDOWMENT FOR DEMOCRACY

TUESDAY, MAY 20, 1986

HOUSE OF REPRESENTATIVES,
COMMITTEE ON FOREIGN AFFAIRS,
SUBCOMMITTEE ON INTERNATIONAL OPERATIONS,
Washington, DC.

The subcommittee met at 2:15 p.m., in room 2172, Rayburn House Office Building, Hon. Dan Mica (chairman of the subcommittee) presiding.

Mr. SMITH [acting chairman]. We're going to begin the proceedings. The chairman has been detained and will be with us shortly. We will call the meeting to order.

Today's hearing will continue our discussions on the National Endowment for Democracy. This is the second in a series of three hearings on this subject. You will recall that at our first hearing last week, testimony was received from the General Accounting Office, the Department of State, and the U.S. Information Agency. I would like to announce today that we will work with the Endowment's core grantees to schedule a third hearing, where we may formally hear their testimony; and any of them that are here today, I hope will remain available as had been discussed, for any questions that might come today. But we will have a third hearing for the core grantees.

Our witnesses this afternoon include Members of Congress as well as the Chairman of the Board and the President of NED. We are pleased to welcome Congressman Conyers, Congressman Cheney, Congressman Brown, Congressman Frank, and Congressman McCurdy.

I understand that Congressman Conyers and Congressman Cheney are in a bit of a bind timewise so, if their colleagues don't mind, we would ask them to proceed first. And why don't both of you come right to the table and flip a coin or have a duel on the field of honor for—Mr. Conyers will go first? That's good. A tie is a little tough to take.

The gentleman from Michigan always wears sartorially splendid haberdashery. So, Mr. Conyers, if you would begin.

STATEMENT OF HON. JOHN CONYERS, JR., A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MICHIGAN

Mr. CONYERS. Thank you very much, Mr. Chairman. I am honored and, by your introduction, flattered to be here before the Foreign Affairs Subcommittee on International Operations.

First of all, I want to commend Chairman Mica and the members of the subcommittee for choosing to have oversight hearings. This has been a matter of some importance, and I'm very pleased and proud of this subcommittee for doing that.

I'm here in a more friendly environment about the National Endowment for Democracy. It was conceived with the best of purposes and motives. The people that have worked in it have probably done as well as they could under the circumstances. The National Endowment for Democracy has been in trouble; it's been controversial right from the beginning. And, of course, that, I think, is why these oversight hearings are so important.

It is a conclusion on my part that I should get out of the way right off the bat, that the National Endowment for Democracy has repeatedly demonstrated itself incapable of staying out of trouble. Now, maybe that's just in its mandate; maybe it's in the stars; maybe forces beyond all of our control conspire for this to keep happening. But the problem is that it does. As a result, it has not served our national interests; indeed, it has embarrassed them and, at times, subverted them, certainly contradicted them. It certainly has not promoted democracy; probably somewhere—I take that back. Probably somewhere in all the millions of dollars in all of the countries, it has promoted democracy; but in the course of doing so it has created much more difficult problems by meddling in the internal politics of other countries abroad and by ignoring the congressional intent and the spirit of the laws that created them here. That's the problem that I am confronted with.

I support the political parties—certainly one of them—that is a primary beneficiary of NED, the Democratic Party; I've always been a Democrat. I certainly support the labor movement, which is doing quite well by that. I'm a product of the labor movement, a member of the labor movement, a legal representative for the labor movement. My father was in the labor movement. I support the collective-bargaining idea and the idea that labor unions have a higher mandate than just the collective bargaining issues. I think it's important that labor organizations participate in questions of foreign policy, questions of peace, questions of organizing workers and seeing that freedom is pervasive on this ever-shrinking planet of ours.

Nevertheless, the problem that we as legislators are confronted with—and this subcommittee in particular—is the fact that we have—maybe not an incestuous relationship with NED, but certainly a relationship among the principal parties that compromises the real spirit of how we would want an organization to conduct itself overseas.

Here we are, operating inside of other countries, making substantive decisions about their political activities, endorsing candidates, spending money—sometimes overtly and sometimes covertly—in political activity that would never be tolerated by anybody inside the United States of America. That bothers me, that we are doing in other countries what we would never allow a NED from any other country to operate in our domestic shores and in our political affairs. We're interfering; I think we're meddling.

And so it's exceedingly important, as I said before Chairman Mica arrived, that this subcommittee proceed with the oversight

that it has undertaken. I am very pleased that this is being done, and I am honored to present a few observations in that regard.

Now, it seems to me that if this view that I project is sustainable, that it really means either a serious change or it means—and I hate to say this—probably the end of NED.

Maybe it can be remolded; I don't really know. But I think that one of the last straws occurred, members of the subcommittee, when groups funded by NED began to advise the U.S. Congress on how it should vote on its foreign policy matters. Now, that seems to me that we have now finally come full circle. I mean, we get advice from NED-funded organizations outside of the United States on how we should operate in the Congress on our foreign policy decisions.

"Oh, yes, but Congressman, this organization did not use NED funds." Well, I suppose that might pass muster in a high school discussion of this subject, but there isn't one Member in the House of Representatives that does not understand the principle of "fungibility," that doesn't well know that every dime that NED gave them, they were able to spend—if, indeed, their treasury was compartmentalized; and I believe it if you tell me that's what happened—obviously, they did it. And what I'm even more afraid of and will never be able to know is that they might have done it with the approval of the officials of the National Endowment for Democracy operating in the country in which the organization then bought ads in the United States to help advise me on what America's foreign policy should be. That is about the last straw.

And so, without going into the rest of my testimony, I just wanted to lay that foundation. My colleague is as short on time as I am. And I want to again thank the chairman and the members of this subcommittee.

We've got a tough situation in front of us. We can blink—and I know there's a million reasons why all these unhappy things happened—but there also is a responsibility that more and more people are beginning to examine. I think we're going to deal with this in a fashion that will pass favorable judgment upon the entire Congress.

I thank you, Mr. Chairman, for allowing me to lead off today's discussion on this subject.

Mr. MICA [assuming chair]. I thank the gentleman. Several members are in a hurry here. Let me just make this comment and then I'll call on Mr. McCain for a 30-second comment, and then we'll move on to the witnesses, but we won't go into questions right now.

I just want to assure the gentleman that I have chaired this committee for about 2 years now. I know Mr. Brown is here and I hope he can testify to this, that when we've had complaints brought to this committee about this issue or any other, we've literally listed every single complaint that Members have brought to us and addressed specifically everyone in trying to make sure there are corrections. I assure you we will do that and work with you as closely as we can to make sure that every concern is addressed by this committee that is expressed here by our colleagues. We think that's very important, and we will do that.

Mr. McCain.

Mr. McCAIN. Thank you, Mr. Chairman. I've had the privilege of working with you on this issue in the past, and I believe that because of the work of this subcommittee we've made some substantive and important changes in the way that NED does business, which I think has been a great improvement. There are some aspects that we still do not agree on such as the involvement of political parties, as the chairman knows. But I think the record of the contributions already made by NED is very clear. I think that allegations that they have undermined or subverted U.S. policy are, at least at this time, without substantial evidence. I would look forward to any evidence that the distinguished gentleman from Michigan would provide us with.

I think we have an obligation to do what we can to help democracies throughout the world, and I don't view the activities of NED as a way of subverting or undermining any nation, much less our own.

I would just like to emphasize, Mr. Chairman, from one who was very skeptical about NED in the beginnings, that I've been presented with ample evidence to prove that NED has been able to accomplish great things with a very small amount of money. This is a goal that we all seek, and that's the implementation, the furtherance, and possibly—in some cases — the installation of freely elected democracies throughout the world. And I appreciate all the efforts you've made and the cooperation you've shown to members of this committee in helping that become a reality.

Mr. MICA. I thank the gentleman.

Mr. Cheney from Wyoming.

STATEMENT OF HON. DICK CHENEY, A U.S. REPRESENTATIVE IN CONGRESS FROM THE STATE OF WYOMING

Mr. CHENEY. Thank you, Mr. Chairman.

I am pleased to have the opportunity to testify today on behalf of the National Endowment. I have gone through an interesting transition of my own views on the Endowment. I obviously am at odds with my friend from Michigan, Mr. Conyers, on the matter.

I would disagree with the notion that the Endowment has been involved with meddling. It seems to me that the United States and agencies of the United States could never be accused of meddling if they're involved in trying to promote democracy around the world.

Two years ago, I did not support the Endowment when it first came up. I was not convinced that the focus of the Endowment was appropriate or that it was well defined and its goals understood. I was wrong. I've watched the Endowment and the progress that the Endowment has made over the last 2 years and I am now convinced that they are, in fact, on the right track. I was pleased to read testimony before the subcommittee last week from GAO and USIA and the State Department regarding the procedures and operations of the Endowment, which back up my own belief in the Endowment, and I was especially pleased that the USIA audit of the grant to La Prensa gave the Endowment a clean bill of health. I have no doubt that there will be other attacks in the future, and that's why I think it's important that the Endowment's procedures be above reproach.

I strongly support, Mr. Chairman and members of the committee, what the Endowment is doing and I believe in its efforts to make clear that it is giving valuable assistance to groups struggling for freedom and democracy around the world. The Endowment has demonstrated that it is capable of finding creative ways to do so, even under the most difficult of circumstances.

I'd like to touch just briefly on a couple of programs that I think are especially important and that demonstrate the potential of the Endowment.

In Afghanistan, the education system has obviously been decimated during the 6 years of Soviet occupation. All of the 1,900 village schools have been closed. All but 50 of the 1,400 elementary schools have been eliminated. Only 16 of the 196 high schools remain; only 2,000 students are attending the university, where before the Soviet invasion some 15,000 attended. It must also be pointed out that those schools which do remain open in Afghanistan are based on a Soviet model of Marxist indoctrination.

The Endowment has offered an alternative by assisting in efforts to maintain an independent system of education, free from Soviet indoctrination, which includes basic education and principles of democracy and freedom.

The National Endowment is also providing support to *Libro Libre*, a book program based in Central America. *Libro Libre* is a private, nonprofit association of distinguished Central Americans, established in Costa Rica to promote culture, science, art, and education in all Central American countries as a free and pluralistic expression of the Central American people. Responding to what the Costa Rican newspaper, *La Prensa Libre*, has termed "a crushing invasion of Marxist works that has occurred in Central America over the past 20 years," *Libro Libre* offers a democratic alternative through the publication of books and a monthly magazine and the organization of seminars and lectures. The books include current works by Central Americans and democratic thought from around the world. Some 30 books have already been published. A new series, called "Democracy Today," will publish classics by Thomas Jefferson, John Locke, Alexis de Tocqueville, as well as works by Simon Bolivar and Jose Marti.

The Endowment also provides assistance to Solidarity in Poland, to democratic groups in Chile and Haiti, to *La Prensa* in Nicaragua, and to a host of other groups around the world that are making a vital contribution to the democratic cause.

Mr. Chairman, Shirley Christian has summarized my thoughts in her recent book, "Nicaragua: Revolution and the Family," when she writes,

Only by promoting democratic political development on a long-term basis can the United States hope to avoid the hard choices between sending troops and accepting a regime that overtly opposes its interests.

We cannot change the past, but we must look to the future. If we are to compete with our totalitarian rivals—and we must—we have to strengthen democratic alternatives to communism. In so doing, we are not merely helping others but serving our own enlightened self-interest. Democracy is the best bulwark against the spread of communism, and democratic states are not only the best guaran-

tors of human rights, but also the surest friends of the United States. Our country will always stand ready to receive political refugees from tyranny, but wouldn't it be preferable if such people did not have to flee in the first place? Shouldn't we help them secure and strengthen democratic political institutions in their own homelands?

I think we must, and the Endowment offers a new, creative, and potentially historic opportunity to strengthen the forces of democracy in the world. I believe it deserves our support.

Mr. Chairman, I have a lengthier statement that I would like to include in the record, but I will close my remarks at this point and thank the committee for the courtesy.

Mr. MICA. Without objection.

[The prepared statement of Mr. Cheney follows:]

PREPARED STATEMENT OF HON. DICK CHENEY

Mr. Chairman, I am pleased to testify today on behalf of the National Endowment for Democracy.

The question of the Endowment's existence is not only a question of resources -- which are, of course, indispensable to its activities -- but also a question of the open commitment of the American people to the cause of freedom and democracy in the world.

Two years ago I did not support the Endowment for the requested amount because I was not convinced that the focus of the Endowment was well enough defined and its goals understood. In times of fiscal restraint we cannot, as you well understand, put money into programs that do not have a solid plan and system for implementation. I have watched the progress of the Endowment over the last two years and am convinced they are on the right track. I was pleased to read testimony presented to this subcommittee last week by the General Accounting Office, the U.S. Information Agency and the U.S. Department of State regarding the procedures and operation of the Endowment, which only back-up my belief in the Endowment. I was especially pleased that the USIA audit of the grant to PRODEMCA for La Prensa gave the Endowment a clean bill of health. I have no doubt that the

Endowment will be the target of other politically motivated attacks, which is why it is so important that its procedures be above reproach.

I strongly support what the Endowment is doing and I believe its efforts make clear that it is giving valuable assistance to groups struggling for freedom and democracy around the world. The Endowment has demonstrated that it is capable of finding creative ways to do so, even under the most difficult of circumstances.

Mr. Chairman, I would like to call attention to the achievements of the four major Institutes affiliated with the Endowment -- the Free Trade Union Institute, the Center for International Private Enterprise and the National Democratic and National Republican Institutes for International Affairs. These four organizations, representing key sectors of American life, are making an invaluable contribution in working with their counterparts abroad in the effort to build and strengthen the institutions of democratic pluralism.

I would particularly like to commend the Free Trade Union Institute and the party institutes for their important assistance to the democratic transition in the Philippines,

provided for the collection and translation of Solidarity's underground publications and their distribution to Western trade unions and human rights organizations. In addition to this external support, FTUI also assists the Brussels-based Solidarity Office Abroad in its efforts to provide direct assistance to the Solidarity trade union movement inside Poland. In large measure, this assistance supports the outlawed union's communications activities which include many different periodicals appearing in the underground and reaching an audience of millions. The Polish independent press has enabled the union to communicate effectively with its members, thus breaking the government's monopoly of information.

We in Congress cannot journey to Poland and join in Solaridarity demonstrations. We cannot engage in activities to promote freedom peacefully there, all the while putting our existence, our jobs, our families on the line for our principles. But we cannot turn away from the Polish people. I gain a satisfaction in knowing, by supporting the Endowment, I am, albeit in a small way, voicing my support for those who are carrying on the flame of freedom in closed societies such as Poland.

In 1985 the Center for International Private Enterprise (CIPE) began a program in Nicaragua that subsequently was

enlarged to include other Central American countries. CIPE funds, granted to the Pan American Development Foundation, enabled that organization to provide support to the Nicaraguan Development Foundation for the purpose of studying the situation facing the small business sector since the advent of the Sandinista government. Through activities such as this, CIPE is providing valuable support not otherwise available to small businessmen and women around the world. The joint PADF-Nicaraguan Development Foundation project will continue to serve as a focus for united action and advocacy on behalf of small business in Central America.

The National Democratic and National Republican Institutes for International Affairs have been actively promoting democracy abroad through counterpart organizations. One of the most notable of their many successes was the report of the delegation which they jointly sent to observe the Philippine elections. I know the Institutes would be happy to share that report. In commending the Institutes for their bipartisan work in the Philippines, I am only doing what Secretary Shultz has already done when he congratulated them on their excellent work there.

Let me cite a few other examples of important Endowment programs. Certainly there is no more difficult situation

than the struggle of the Afghan nation for survival. As the Afghans continue their struggle against Soviet domination, they must also prepare themselves for the fundamental political and social problems they will face once the military battle is over. The educational infrastructure that had been developed only recently in Afghanistan has virtually disappeared. The Soviets are taking major steps to capture the minds of the younger generation; tens of thousands of children are sent to the USSR for indoctrination and most of the schools located in areas not under government control have been destroyed or abandoned. The teachers have been dispersed and either returned to their villages or fled abroad, as have many intellectuals. In fifteen years, an entire generation may be largely illiterate, with no notion of history, geography, science, and much of the Afghan culture may be destroyed or wiped out.

The Afghan people, including many in exile, have been trying to address this serious problem, even though the fighting in their country makes it extremely difficult to do so. The National Endowment for Democracy has assisted in their efforts to maintain an independent system of education, free from Soviet indoctrination, which includes basic education in principles of democracy and freedom. Support is going to publish reprints of textbooks and

reading materials; to select and train Afghan teachers to work with villagers to reestablish schools in their home areas and to teach basic subjects in those schools; to establish literacy centers within Afghanistan; to create a document center to collect, preserve, and develop materials on Afghan history, traditions, culture, and current events in order to maintain records of Afghan life prior to the Soviet invasion.

With Endowment support, the American Friends of Afghanistan has distributed over 75,000 copies of 60 different books inside Afghanistan, including literacy textbooks and reading materials. AFA is printing books in both Dari and Pashto. A series of pamphlets entitled, "Useful Knowledge," has also been published as a part of the curriculum for children and adults. Books published and distributed include Readers, Islamic Education books, and Teachers Guides, all of which are invaluable to the Afghan people and all of which they would not and are not getting from other sources.

To help the Afghan nation understand what is going on in Afghanistan, AFA prepared a number of cassette tapes and sent them inside Afghanistan. It is well to remember that the Soviets have a massive propaganda effort underway to convince the Afghan population that they have no

alternative but to accept communist occupation and ideology. At the present time, the government, under Soviet direction, provides 18 hours of radio broadcasting and 5 hours of television broadcasting time a day to spread its propaganda. The tapes the AFA distributes use voices familiar to the Afghan people and contain news, commentary on current events, the war, historical information, as well as music and folk stories relevant to the struggle in Afghanistan.

Afghanistan is not the only country where the Endowment is undertaking bold and creative initiatives. The National Endowment for Democracy is providing support to Libro Libre, a book program based in Central America. Libro Libre is a private, nonprofit association of distinguished Central Americans established in Costa Rica to promote "culture, science, art and education in all Central American countries, as a free and pluralistic expression of the Central American people." Responding to what the Costa Rican newspaper, La Prensa Libre, has termed a "crushing invasion of marxist works" in Central America in the past two decades, Libro Libre offers a democratic alternative through the publication of books and a monthly magazine and the organization of seminars and lectures.

To counter the wave of Marxist thought in the region's universities, Libro Libre intends to begin a series called "Democracy Today". This series will reprint and distribute Spanish translations of such democratic thinkers as John Locke, Thomas Jefferson, and Alexis de Tocqueville and others as well as Latin American classics.

The Endowment has supported an effort led by Armando Valladares, the distinguished Cuban poet who spent 22 years in Castro's prisons, to establish citizen committees in European countries to gather and disseminate information about the human rights situation in Cuba. Valladares is the author of the just published book, Against All Hope, a moving and eloquent account of his prison term which vividly demonstrates his own courage and the urgency of his democratic cause.

The Endowment has also funded The Chinese Intellectual, a Chinese language quarterly for distribution to students and scholars from mainland China currently residing in the West. The magazine has also been distributed among key intellectuals and policy-makers inside China, where it hopes to act as a forum for discussion among Western and Chinese writers. The editor of the magazine, Liang Heng, has just published After the Nightmare, a remarkable account of his return to China which describes the impact on Chinese society of the reforms undertaken there.

The Endowment also provides assistance to Solidarity in Poland, to democratic groups in Chile and Haiti, to La Prensa in Nicaragua and to a host of other groups around the world that are making a vital contribution to the democratic cause.

I ask my colleagues to reflect for a moment how different the current situation in Central America might be had we had a National Endowment for Democracy -- adequately funded -- working in Nicaragua, El Salvador, Guatemala and Honduras over the past two decades. One doesn't know if it could have changed the course of history, but surely it is arguable that we might have been able to avoid the violent confrontation in Nicaragua that tragically allowed an undemocratic regime of the left to succeed an undemocratic regime of the right. Had the forces of the democratic center been stronger, a peaceful transition to democracy might have been possible. But they weren't stronger, in part because we did nothing to help them.

Mr. Chairman, Shirley Christian has summarized my thoughts in her recent book, Nicaragua: Revolution in the Family, where she writes, and I quote, "Only by promoting democratic political development on a long-term basis can the United States hope to avoid the hard choices between

sending troops and accepting a regime that overtly opposes its interests." Ms. Christian writes that "the hour was late for this lesson to be applied to Nicaragua."

We cannot change history, but we can realize our past mistakes and not allow them to happen again. We now have the tool with which to do that. I have described only a few of the programs the National Endowment for Democracy is supporting. The Endowment is off to a good start, but the problem is vast.

If we are to compete with our totalitarian rivals, and we must, we have to strengthen democratic alternatives to communism. In so doing, we are not merely helping others but serving our own enlightened self-interest. After all, democracy is the best bulwark against the spread of communism. And democratic states are not only the best guarantors of human rights but also the surest friends of the United States.

Our country will always stand ready to receive political refugees from tyranny. But wouldn't it be preferable if such people did not have to flee in the first place? Shouldn't we help them secure and strengthen democratic political institutions in their homelands?

It is easy for us to debate the Endowment's successes, and for some to focus on a few controversies. We have a free society and government in which such debate is possible. It is hard for us to fully comprehend the Endowment's concrete and personal successes. But on behalf of those who cannot join in this debate, whose voices cannot be heard, who do not have the benefit of democracy, for them I ask your support for the National Endowment for Democracy. I think we must, and the Endowment offers a new, creative and potentially historic opportunity to strengthen the forces of democracy in the world. It deserves our support.

Mr. MICA. I thank the gentleman. Your entire statement will be included in the record, and I want the record to note that NED has been praised and criticized from the right and the left, so we get it from both sides. But we do appreciate your being with us, and we'll excuse the witnesses at this time unless there is—Mr. Conyers, do you have any additional comments?

Mr. CONYERS. No, I don't.

Mr. MICA. And we'll call our other colleagues up in this order, with no particular prejudice: Mr. Brown, Mr. Frank, and Mr. McCurdy.

Mr. MCCURDY. A lot of prejudice.

Mr. MICA. OK, Mr. McCurdy, Mr. Frank—

Mr. BROWN. I thought your order showed great judgment, Mr. Chairman.

Mr. MICA. Is there any reason—the Chair of the committee had understood that this arrangement was by previous agreement, but if the three of you would like to argue—Mr. Brown, please proceed.

STATEMENT OF HON. HANK BROWN, A U.S. REPRESENTATIVE IN CONGRESS FROM THE STATE OF COLORADO

Mr. BROWN. Mr. Chairman, thank you for the opportunity to testify before the committee. I want to extend my thanks to the entire membership of the committee for their willingness to consider this issue.

I must say, I find myself in strong agreement with the outline that was suggested earlier by the chairman as a result of the committee's study. The committee has taken the time to look conscientiously into all of the issues that have been raised with regard to the Endowment, and they have my deep appreciation. As a matter of fact, your chairman, Mr. Mica, has been so conscientious that I have a few farmers and small businessmen I'm going to refer to your office in the next few weeks as well, to help them out.

The National Endowment is made up of a Board of our friends—friends of both parties, friends of this country, some very outstanding people, both men and women, who have contributed a great deal to the Nation and who have nothing but the best of motives in trying to promote democracy abroad. That goes without saying; I think all of us know it.

My conclusion is, they need our help. There are some structural flaws in the way the Board is set up. Correcting these flaws would be very helpful to them in staying out of trouble. Perhaps there's a kinder way to put that, but the simple fact is they have made mistakes, as anyone who tries to do something worthwhile makes mistakes. I don't fault them for that. I think the question is how we avoid those mistakes in the future.

In the last 3 years they've dispensed \$54 million of the public's money.

There are three areas that I'd like to direct the committee's attention to; there are more, but I thought I would try to limit it to that.

First of all is the question of the allocation of funds. The simple fact is that there is a conflict of interest built into the NED Board. Members of the Board can and do give grants to the same groups

with which Board members are affiliated. That's right; the Board members who are affiliated with organizations funded by NED are involved in dividing up the money among their own organizations. The GAO audit, as a matter of fact, points out that during 1984 and 1985, the National Endowment for Democracy gave a staggering 88 percent of their money to the groups represented on the Board. It makes you wonder who that other 12 percent was, to be able to break in. The simple fact is, we've got to address that conflict of interest. You simply don't have reasonable decisions on allocating money when you're competing with other groups that are represented on the Board.

The second issue that I hope the committee will take a look at is the question of review. The Endowment does review the projects to see that they spent the money properly. Hopefully, they'll do performance audits as well to see that they've done what they said they would. But the GAO report concludes as follows, and I quote from the report: "As a rule, the Endowment spent more time monitoring the relatively small, non-core"—that is, people and organizations not represented on the Board—"relatively small, non-core, or discretionary grantees which accounted for less than one-tenth of the Endowment funds than it did on its large-core grantees." In other words, even though the organizations who had representatives on the Board got 88 percent of the money, the vast majority of the Board's time in auditing these projects went to the 12 percent that weren't represented on the Board.

So what you have is the Board looking into the projects that don't have a representative on the Board. They conclude by saying in their report, "The Endowment's staff spent relatively little time monitoring core grantee activities."

I don't throw that out as a criticism of the fine people on the Board. I think they're in a dilemma on that Board. I think to be on that Board and to suggest equal investigation of the money that's spent in this area by looking into organizations that are represented on the Board is very difficult. You have to turn to your friend that sits next to you on the Board and say, "By the way, I'm ordering an investigation of your organization next week." And it hasn't happened, and it hasn't been done. We need to help them find a way to enforce their mandates in an evenhanded manner.

There's a third area I hope the committee will look at. There's a question of overhead. Now, they tell me that when you give a grant like this, that the normal range they expect in these grants is from 7 to 12 percent for administrative costs. Presumably, a grant that went to an organization that spent more than 12 percent of the money on overhead would be considered to be somewhat wasteful.

Anybody want to take a guess as to what the Republican Institute spent? Now, you know, we Republicans are known as being pretty good at holding down overhead; at least, we think we are. The Republican Institute spent 44 percent of its funds on administrative overhead. We can still hold our heads up high, though; we did better than the Democratic Institute. The Democratic Institute spent a record 54 percent. Now, I don't know if they give out gold medals in this category, but 54 percent of the entire money you've got being spent in administrative overhead is incredible.

I mention these things because I think the Board needs our help in perfecting the job they do. They have the best of intentions; they have good people involved in it. I've offered a bill, H.R. 3984, that deals with some of these problems; and, Mr. Chairman, my hope is that the committee might be willing to consider that bill. I don't know that the committee will find themselves in agreement with all of the provisions of the bill, but I think you'll find many of them to be helpful and positive. In talking with members of the Board, they've indicated an interest and support in many of the items—I should emphasize, not all. But I think that a reform measure such as H.R. 3984 might well be helpful in this area.

Thank you for your consideration.

[The prepared statement of Mr. Brown follows:]

PREPARED STATEMENT OF HON. HANK BROWN

Mr. Chairman, I appreciate the opportunity to testify today on the National Endowment for Democracy.

The United States has an historic commitment to the goal of promoting democracy around the world -- first and foremost, by ^eexample. This has been and, hopefully, will continue to be a centerpiece of our foreign policy.

With this goal in mind, Congress has provided \$57 million over the past three years to the National Endowment for Democracy.

The General Accounting Office audit points out several areas that merit attention. A critical flaw in NED's structure is the conflict of interest built into the NED board. The board can and does give grants to groups with which board members are affiliated. In fact, according to the GAO, during FY 1984 and 1985, NED gave 88 percent of its funds to groups represented on the board.

Simply put, the board has seen its job as one of dividing the public money among their own organizations rather than selecting among deserving projects.

Having NED grantees represented on the board prevents independent review, oversight, and evaluation. The GAO study

documents the fact that grants to the groups represented on the board -- the "core grantees" -- do not receive the same degree of oversight as the "non-core" or "discretionary" grants:

"As a rule, the Endowment spent more time monitoring the relatively small non-core (or discretionary) grantees, which accounted for less than one-tenth of the Endowment funds, than it did on its large core grantees."

"The Endowment staff spent relatively little time monitoring core grantee activities."

The GAO expresses concern about "the lack of specific information" in some proposals. It finds that proposals submitted by core grantees were sometimes "not sufficiently detailed to determine what the projects were intended to accomplish."

NED's grant to the French student group is instructive in this regard. Of the \$11 million that the labor institute received, it gave \$575,000 to the student group. NED president Carl Gershman has informed my staff that the NED board was not told either the name of the student group or the exact dollar amount it would be receiving. The proposal the board approved contained a one-sentence characterization of the group with no indication that it would receive one of the largest grants ever made with NED funds.

The GAO draws a contrast between core and non-core grantees with regard to the adequacy of data provided to the board:

"In contrast to the core grantee proposals, the approved discretionary grantee proposals that we reviewed generally appeared to contain adequate amounts of data"

The GAO finds similar problems with regard to the quarterly reports NED requires of its grantees. This is NED's main device for monitoring projects. Once again, GAO cites the grantees that sit on the board as the problem:

"Some core grantee quarterly reports contained little information on progress and did not always identify problems we observed during our fieldwork."

The GAO reports that the most serious problem with NED is the lack of "independent verification," especially in the case of the core groups represented on the board:

"However, our greatest concern about the Endowment's monitoring stems from the fact that it generally did not verify the information being provided by its grantees, particularly the core grantees."

Most granting agencies try to limit administrative overhead as much as possible: a range of 7-12 percent would be considered normal. According to the GAO, NED has allowed the Republican institute to spend 44 percent of its funds on administrative overhead, and the Democratic institute to spend 54 percent. This level of overhead is clearly unconscionable. No grantee not on the board has anything close to this level of administrative costs.

I have introduced a bill that addresses the need for an independent board. H.R. 3984 prohibits grants to groups with which NED board members are affiliated, either as officers, employees, or board members. I hope that the subcommittee will consider this bill, along with other proposals that address concerns that have been expressed about the National Endowment for Democracy.

Mr. MICA. I thank the gentleman; and, as the gentleman knows, we've attempted in the past to work out all of these concerns and agreements. You raise some legitimate concerns.

I would like to tell you that we had a hearing last week on this subject regarding the grantees receiving moneys that they oversee. And, at least at this initial stage, the GAO and others felt that it would be virtually impossible to have a Board that has no knowledge of the programs. In fact, one of the witnesses commented to me that the Congress gives out 98.9 percent of the money that it allocates to its own constituents, if you take out foreign aid.

So I understand that there is an inherent concern, and we will address it. But I asked about a procedure to set up a new Board, essentially with individuals who have no knowledge or ties. It's almost impossible; in fact, the GAO recommends that you find people with the knowledge and the background. So just to let you know, we are concerned and we will proceed with that.

Thank you.

Next, Mr. Frank from Massachusetts.

STATEMENT OF HON. BARNEY FRANK, A REPRESENTATIVE IN CONGRESS FROM THE COMMONWEALTH OF MASSACHUSETTS

Mr. FRANK. Thank you, Mr. Chairman. I'm inclined to agree with your last comment, that the problems of this place are insoluble, and therefore nothing short of abolition will save the public money.

I would point out to my colleague from Colorado that the Democrats probably pay a much better wage than the Republicans, which is probably why we have a higher overhead. [Laughter.]

Mr. BROWN. They just spent more on consulting fees.

Mr. FRANK. The Republicans do, that's true.

I was dubious about this when it first started. Now that we are in the era of Gramm-Rudman and we're spending a zero sum, I don't think this is a hard question anymore. To say that we're not going to fund public transportation or research on cancer because we've got to give money to a French union for political purposes just doesn't seem to be reasonable. I'm not arguing that nothing this Endowment does is useful; the question is whether it is the most useful—well, there are really two questions—or even the good things it does—the best use of our money. Taxing American taxpayers to get involved in the politics of France, which this operation did, is just a terrible mistake. Taxing American taxpayers to help fund Prodemca so that an ad can appear in the paper on any side of a domestic issue is a terrible mistake. And a substantial part of these funds are to go for somebody or other's political purpose.

Now, we're told, don't worry about it because we've got the Democrats and the Republicans, and the AFL-CIO and the Chamber of Commerce. Leaving aside the point that those four institutions—worthy as some of them are; three out of four ain't bad in my judgment; it's the Chamber of Commerce I'm not too crazy about—but they hardly exhaust the spectrum of reasonable opinion. And taxing Americans of all opinions and then channeling their revenues so that the political opinions are expressed by the

Democratic and Republican National Committees, the AFL-CIO and the Chamber of Commerce, I think, is abusive. People have a right to a broader choice if we're going to have to do it, but we don't have to do it. It just is not appropriate to tax people to have Prodemca or Antidemca or any Demca you can think of.

In addition, we have the problem—and that is where the money, it seems to me, is being unwisely spent. There are just an awful lot of cases here where they say, oh, that was a mistake and we won't do it again. It's not that they're bad people, and I don't even think that it's a conflict of interest. It's an inherently difficult thing to do in a democracy, to take taxpayers' dollars and spend them for political purposes.

I am told one of the good things they did, people said to me, was—well, we helped the politicians in Northern Ireland. I was at some Democratic dinner, and there were some people there from Northern Ireland, politicians who had been helped by Democratic money. Maybe I've been in Massachusetts too long, but the notion that we've got to tax the Americans to teach the Irish about politics seemed to me a very strange one, to be honest with you. I thought that was not such a good idea.

If people want to help one party or another in Northern Ireland, that's fine; but I don't think the American taxpayers ought to be taxed to do that in the political sense, in teaching people political techniques. I confess to a political science bias that says it's very hard for people from one society to go into another and teach them. I doubt very much that there was a great deal that couldn't be transmitted to them in other ways.

So there are a lot of mistakes that are made; and then the things that are useful are of a lower priority compared to the things we've had to cut. Occasionally, there are things that they do that are of a very high priority. Mr. Cheney mentioned the question of aid to education in Afghanistan. Those would survive, I believe, through the foreign aid budget and in other ways. But the general thrust of the National Endowment for Democracy, which is that we're going to take four partisan political private groups in America, the Democrats, the Republicans, the Chamber of Commerce and the AFL-CIO, and we're going to tax people and take that money at the point of a gun—which is what you do when you tax people—and give it to these four private political organizations to go off and pursue whatever worthy political causes they have overseas seems to me a very grave error.

So I think we ought to abolish this, and particularly now, when we are denying medical benefits to sick old people and doing a lot of other things that none of us want to do—and some of us won't do under any circumstances — to send money to French unions and organizations that are putting ads in the paper, or to do poll watching in Northern Ireland, I think is a mistake, especially since the criteria seem to me to be very loose ones. I couldn't help reading one of these articles, Mr. Irving Brown defending this saying that democracy in France is under attack; and he says, "Is it a clear and present danger?" And he said, "Yes, if by the present you mean 10 years from now." Well, that kind of reasoning is, it seems to me, not really worthy of millions of American tax dollars. And

to put another \$20 million in that pot at this time, I think, is a very grave error.

Mr. MICA. I thank the gentleman, and I just want the gentleman also to know that I've shared some of the very concerns in some of the specific programs you've mentioned; France, in particular, which was suspended. Mr. McCain, who was, as he indicated, quite an opponent of NED, looked at some of the work they've done, and now is quite a supporter. I won't attempt to change your mind at this time. But I know the gentleman's concerns over defense, for instance, and defense spending, and we're spending \$200 million for one B-1 bomber. And when you talk about an arsenal of democracy, \$18 million in a little program that can aid in some areas can be very helpful down the road. Just like Voice of America and Radio Free Europe and some of our foreign aid programs—none can stand up against a Medicare cut, especially with you and I who have districts with seniors. Look at the total amount that we spend for defense in America at large. NED requires a rather small amount, and if it can be done right—which is what Chairman Fасcell, when he wrote this program, envisioned.

Mr. FRANK. If I can respond, Mr. Chairman. In another era, when we had some more money for instance, I voted for Radio Marti when it first came up. I'm going to vote against it now because the budget has gotten tighter. Frankly, I tend to be more of a Ronald Reaganite on the budget deficit; I'm not as worried about it as a lot of other people. Gramm-Rudman passed over my objection, and so we've got to be tighter. And I think you have to calibrate for that.

But what I would say in addition to that and the spending thing—and I don't deny that some of the things are valuable—I think, however, the potential for abuse is greater here than anywhere else because what you're doing is saying to private organizations, who are not used to operating under Government constraints—you're saying to the Democratic and Republican National Committees and the AFL-CIO and the Chamber of Commerce, go pursue your political objectives. And I just think that it's not an accident that there are going to be more of these cases here than elsewhere. I don't think you can avoid the conflict of interest problem. I don't think you can avoid the other problems. So I don't say that none of it is valuable. I would say that those parts of it that are valuable ought to be done through more conventional Government channels, and most of it shouldn't be done at all.

Mr. MICA. All right. I thank the gentleman.

Mr. McCurdy.

**STATEMENT OF HON. DAVE McCURDY, A UNITED STATES
REPRESENTATIVE FROM THE STATE OF OKLAHOMA**

Mr. McCURDY. Thank you, Mr. Chairman.

I have to say at the outset that, perhaps, I think there are some areas that I agree on with both my colleagues, Mr. Brown and Mr. Frank, and I think there has to be strict accountability in the use of funds.

I would say, though, from the perspective of one who sits on the House Intelligence Committee, that when viewing the alternatives,

I think we need to look very closely at what the National Endowment is trying to accomplish. And I think the alternatives have been expressed as, one, doing nothing; or, quite frankly, leaving it to the CIA. I think that, quite frankly, we owe more to people around the world who are resisting tyranny, than to have it couched in such strict alternatives.

I think it's important that we support groups that, on the surface, have interests and certainly are public expenditures, that you can't have some very strong accountability on. And I think that's something that we should keep in mind.

I think the National Endowment is probably going through some early birthing pains and certainly is a new organization; however, in a short time under difficult circumstances, the Endowment has launched, I think, an impressive program and has established procedures to address many of the concerns that we've heard expressed here this afternoon.

I'm impressed by the bipartisan spirit in which the Endowment has been proceeding. It's not often that we can get this kind of cooperation from members of both parties, from labor and business, from liberals and conservatives, and it's encouraging that this cooperation has been focused on the central point, and that is the need to promote democracy.

Meeting our national security needs requires more than a strong military posture. We have to do more at the grassroots level to help democratic friends around the world who are often as disadvantaged in competing with well-trained, well-financed, and well-organized enemies of democracy. Democratic development requires time, patience, and resources. We must be prepared to help and work over long periods. If the job is done as it should be done—with sensitivity and genuine democratic commitment—we can promote options more palatable than using force to prop up corrupt dictatorships of the right, or succumbing to Marxist gunmen on the left. This is why we need a National Endowment for Democracy. Through the Free Trade Union Institute, the Endowment has supported Solidarity in Poland, emerging black unions in South Africa, and democratic workers' federations in Chile and Nicaragua. Its work in the Philippines contributed greatly to the rebirth of democracy there. Through the Center for International Private Enterprise, it helped strengthen business groups in Peru, Zimbabwe, Mexico, and the Dominican Republic.

The Endowment also supports many other activities, including La Prensa, the independent newspaper of Nicaragua; the emerging free trade movement in Haiti; schools and literacy programs in Afghanistan; establishment of a Coalition for Human Rights in Cuba; and democratic Russian language journals circulated in the U.S.S.R. and Eastern Europe.

A successful foreign policy, Walter Lippman said, will strike a balance between commitments and power; between ideals and obligation on the one hand, and capabilities and resources on the other. We are a nation with high ideals, and we take on broad commitments. If we really believe in what we say, we must offer tangible assistance to those who are trying to build democracy under difficult and dangerous conditions.

We should not, Mr. Chairman, forget Walter Lippman, what he said, that "Man has to earn his security and his liberty as he has to earn his living." There are people in the world who understand this better than we. We owe them our support for our own sake as much as for theirs.

I support the mission of the National Endowment for Democracy and hope that it grows into an institution that can carry the message of democracy around the world.

I appreciate the opportunity to address my views.

Mr. MICA. I thank the gentleman; the way you describe it, every American would love it. Sounds good.

Are there any additional comments from our colleagues? Mr. Frank, I know you have a comment.

Mr. McCURDY. Mr. Chairman, I would just say one thing, if I could, on a serious note that, as it initially started out, I, too, had serious concerns about the Endowment. However, having spent a great deal of time looking at issues such as the Philippines and Nicaragua and other areas, and the stark juxtaposition of the alternatives that we've seen, I think it really is important that we have an organization. And there's not a clean method of doing it, one that we can go through and say, "here's where every cent goes in each of these areas." But again, having sat on the Intelligence Committee, I can assure you that I would rather see our dollars—and they are taxpayer dollars—have some accountability through hearings such as this, that the public can understand.

Now, I think you're right in criticizing that involvement in France, and some of the others, and they were stupid. But I think now that we've had some light on this, that we can help shape this into the type of forum that is responsible and at the same time address some of our concerns.

Mr. FRANK. Mr. Chairman, if I might, just one comment on what my friend from Oklahoma said—

Mr. MICA. Certainly.

Mr. FRANK [continuing]. And I appreciate his perspective, and it's a very useful one. But I guess I was unimpressed by one of the points which he made, which was this unusual degree of bipartisan cooperation here. It is my sense any time that you're willing to give both National Committees money, you will be able to get bipartisan cooperation. I'm not terribly impressed by it in this particular instance.

Mr. McCURDY. Well, I don't think either one truly speaks for the American public, and I think that one of the concerns I had early on was the fact that political parties were involved. I think the labor movement and business both have indicated a willingness to sometimes go against the mainstream in addressing some of these areas, whether it's in Central America or—

Mr. MICA. I think, to be very fair—and I have some concerns; we all share some of the same concerns—but the Democratic and Republican Parties aren't out there recruiting votes for the party in Europe or the rest of the country. They're promoting Americanism in a special way, and it's one of the few things since I've been around here where they both work together.

Mr. McCURDY. If we can't stand for these values, I don't know what we can stand for.

Mr. MICA. Mr. Brown. Go right ahead.

Mr. BROWN. Mr. Chairman, I just would make a point because you brought up the question with regard to conflict of interest on the board.

I don't know what more evidence we can get, when the Board gives 88 percent of its money to the people—the organizations that are represented on the Board. And there is an alternative to it. You don't have to shut down NED to solve this problem. It's not that you have to get people outside the country. You can have Republicans and Democrats on the Board. You'd probably do better if you don't have someone who earns their living, though, and gets their pay from an organization funded by NED or is an officer of that organization. That's all that I think is important here, that you have some folks that are reasonably independent. You can have people who have been involved in labor unions without having someone who is the prime officer of the labor union and whose staff gets supported because of this.

So I don't see clearing up the conflict of interest as any big problem or any difficulty. What is a problem, though, is to get the people who enjoy that power now to give it up. You know, I don't mean to exaggerate, but if there's anybody in this room who is responsible for anything and contracted with somebody, and they charged them 44 percent overhead for what they did, or 54 percent overhead, if there's anybody here who would not raise hell over that, I'll eat my hat. The only reason something like that can exist is because the people who serve on the board represent those organizations. They're serving special interests; they're not doing their job as independent overseers. Frankly, I think a lot of the problems that have embarrassed NED are solvable. They're solvable by the simple, commonsense method of having people asking the right questions, being even-handed in the audits that they do and in the kind of grants that they give out. And that can be done simply by getting the people who are employees or officers of those organizations to not serve on the Board where they hand out money.

Mr. MICA. I thank the gentleman. I would like the record to note, though, that last week's testimony indicated that NED itself had about a 4-percent administrative cost, and so we're talking about the grantees.

Second, at the gentleman's insistence, the earmarks that required a good portion of those funds to go to the various groups have been changed since that report came out. Of the 88 percent, 68 percent was required by law to go to that one particular group. We have changed that now, so that part of the report was addressed in this latest round. We think that will go a long way to correcting these problems, and we'll look at the balance of this to see where we can make changes.

Mr. Smith.

Mr. SMITH. Thank you, Mr. Chairman.

I think everyone who has testified so far, all our colleagues, have obviously put their finger on one issue or another which is of some significance in terms of the problems that are besetting the organization. But I think that you have to really examine whether or not there are goals which we want to accomplish, and then there are ways to get there. We may not have seen the correct roads being

utilized or the most appropriate overview or administrative techniques being utilized, but I'm a little disappointed in my close friend, Barney Frank. Of all the people I would have thought would have been sympathetic to the goals of an organization to try and bring democracy—and I will agree with you that the idea of giving money to a French union may not have been the greatest idea ever invented by a recipient of United States funds—but in many other parts around the country, the use of the money is legitimate—the goal, which is intended to be the result, is legitimate, and it's something that we constantly are looking to do. The gentleman sits as a member of the Immigration Subcommittee; the gentleman knows the kind of flux that many of those Latin and South American countries are in, and I'm a little bit surprised that the gentleman would not see a connection between a program such as this and the possibility of, in some small way, helping to find the democratic elements in those countries which might bring some stability, to create a much less inflammatory immigration problem for the United States.

I share the gentleman's concerns about some of the issues, but I certainly would not want to see this program abandoned because I think that this program, if it can be made to run correctly, ought to be expanded enormously to do what the United States has always as its goal, and that is to provide people around the world who want to get a chance at democracy the ability to find the tools with which to do that very thing, to take them out of the economic poverty in which they are and the political poverty in which they are in some of the places where the money is spent, and give them the tools to be able to reverse that tide. And it just seems to me that there ought to be a method of doing it.

We do have the Asia Foundation, which has been funded for years by this Congress, and which works quite well; the Inter-American Foundation, of which some programs are, in a sense, duplicative in certain areas—yes, we don't have the statutory mandate about the core groups; we don't have the statutory mandates about the caps on money, et cetera. But the point is, we know that these types of programs work when the organization which is charged with running the programs has itself in order. And I just believe that to forgo the opportunity to find another way to provide what we want to provide, other than that which both the gentleman and I would not want to see, and that is any kind of military attempt to provide a democratic setting in places where we're giving money to provide it by the winds of change rather than by military means—I would say would be shortsighted. And as the gentleman knows, the money spent up front in this method ultimately is a much cheaper method of bringing democracy around the world than trying to wage war or imposing it on somebody. And I'm hopeful that we can all work together to try and remove the problems.

The gentleman from Michigan said that he was a member of a trade union movement, and his father was in the union movement. It seems to me that he, then, should understand the benefits of what bringing people the ideas behind trade unionism, collective bargaining, et cetera, the values are—if they don't get them from

us, for Heaven's sake, who are they going to get them from? Not the Soviets; not anybody else in their own sphere.

So, I just feel that there is a necessity. We just haven't found the right delivery vehicle, maybe, or maybe one of the tires blew out on the way to the delivery, but I'm sure that in fact we can make it run right. And I certainly would not like to abandon the baby too early in its nurturing. It was somewhat of an orphan when it got started; and unfortunately, when it ran into rough times the semi-orphan became nobody's product. But there are some of us that would like to see it helped along, if it can be made to be productive. And I think it can, frankly.

Mr. FRANK. Well, let me say first, if the choice is do I prefer the National Endowment for Democracy to World War III; yes, I'm for the National Endowment for Democracy. [Laughter.]

Mr. SMITH. I think we can stop right there.

Mr. FRANK. Well, no one has convinced me that there is any relevance between this and avoiding war anywhere, anytime, anyplace. I don't think there is; frankly, I think that's a rhetorical overreach. You say, well, what's a better way to get democracy to Chile? This, or making war? In the current context that's as realistic as saying, what's a better way to bring democracy to Chile, sacrificing a goat or praying to the full moon? Because neither one of them is going to do, unfortunately, anything to bring democracy to Chile.

And so I think the war issue is a tremendous strawman. Nobody has suggested any way in which this is going to avert war between us and France, for instance, that if we didn't send money to the French unions, that we would somehow be landing again in a hostile way at Normandy.

Beyond that, though, I don't disagree there were some useful things to be done. I think this is an inherently flawed vehicle for doing it in the first place. Second, I think it's ironic to have people say, well, wait a minute; don't you want to bring democracy to Chile? Of course I do. But when we've got a State Department playing footsie with a dictator who runs Chile, a couple hundred thousand bucks isn't going to do anything. I would like to see a consistent policy on the part of this Federal Government, legislative and executive, that says we are prodemocratic. That can be done in many ways that we're not now doing, and it's almost as if somebody's trying to assuage his conscience over at the executive branch because we can do a little better with regard to Chile, but still not great, but we've got the National Endowment for Democracy.

I don't think this is a terribly useful way to go about it in most instances. I agree there are some cases where it might be useful, but it's a very high percentage of things that aren't useful; and taking four private entities with their own ideological and political and institutional axes, some of which I agree with and some of which I don't agree with, that's just not the best way to do it.

I like what the gentleman said before about some of these foundations. Yes, I think there ought to be an entity within the State Department that's got some flexibility to say, OK, if there's a pre-existing institution out here that we think is doing well in promoting democracy, we'll put a little money into this program or that

program. But the way this one's set up, I think you're inviting this kind of problem.

I have to also say, when you say that they don't get the ideas from the unions about us, I think there are other places in the world that you can get them, and you don't have to get them funded through the Government. I think it's a very clumsy vehicle, in addition.

Mr. SMITH. Well, you know, the gentleman is well aware of the fact that we fund literally hundreds of private sector enterprises in one fashion or another, and we use tax dollars for that because we generally view it as part of the collective good. Not all the programs work; there's a big factor in this country who believe that, for instance, the Economic Development Administration in this country should be phased out; others who believe it should be kept alive and given more money. You'll find that debate anywhere you go, whether it's a domestic program or a program that benefits foreign countries.

The question is whether or not we believe that in terminating a program, we are ultimately doing what we should do, notwithstanding the exigencies of the moment, like a Gramm-Rudman time or a high deficit. It seems to me that Americans in general always have understood that their tax dollars are going to be used for programs ultimately which have the interests of democracy in mind, and we're not going to get that only from a trade union. That's why there is a group called the Chamber of Commerce. Free enterprise is, in fact, a cornerstone of the democratic system.

So there is room for everybody to have some say in what's done, and there is room for improvement in how everybody does it. But I just don't think that to attack this program now—and by the way, the Asia Foundation and others were not preexisting programs; we set them up, and the foundation basically is to cut the nexus between the money and the U.S. Government. And this is the same thing that we're attempting to do here; and unfortunately, in its infancy, some mistakes have been made and the connection has been waived in all of the media.

Mr. FRANK. It could continue to be, as long as you do it in this particular fashion. I didn't want to—it seemed like you were disagreeing. You said "free enterprise"—free enterprise is very important in America, and I think it is a useful system. I don't think it is essentially part of any particular democracy. I think free enterprise is clearly the best thing for us; I think it is conceivable to have a democratic system without it. But even there, I'm just skeptical about using some of the money—I heard one of the things that were enumerated, that one of the projects was the promotion of free enterprise in Zimbabwe. I'm not sure exactly who is in charge of promoting free enterprise in Zimbabwe, but my guess is he works every other Thursday for 2 hours. I mean, it just seems to me that there are some uses of the money about which I get increasingly skeptical as I hear it.

Mr. MICA. I thank the gentleman.

Let me call on Mr. Dymally, but first let me say this to the gentleman. I hope we have an opportunity in the next few weeks to share with you a list of the projects that the Endowment is involved in, and I guarantee you there are some projects you would

wholeheartedly support. Nevertheless, we all have some differences, and I in fact have expressed some strong concerns about the way the Endowment has been operated.

Mr. Dymally.

Mr. DYMALLY. Thank you very much, Mr. Chairman. I appreciate very much you giving me this time to make a few observations.

First, let me say at the outset that the only reason why I support the National Endowment for Democracy is because of my friendship with the chairman of the National Democratic Institute and my deep respect for the executive director and the staff. I could find no other reason to support the institute, and I cite you a number of reasons why, as a member of the board of the National Democratic Institute, I've come to this conclusion. And I'm being brutally frank with you.

This is a white male conservative organization, and I've reached that conclusion—and you can reach that conclusion, too—by studying the recipients of the grants. Of all the millions of dollars that have been spent, only one black organization has received any kind of grant, and not a substantial grant—that is, to work in Africa; a very small grant. Not one Hispanic, not one Mexican-American group has been funded. The Cuban-American anti-Castro group has been funded, and they use the money to draft legislation to support Savimbi. I mean, that is what the gentleman from Detroit was referring to, among other things.

And when one looks at the evaluation of GAO, they don't address the question of affirmative action. In other words, the grants are given as if America does not include blacks and Hispanics and women and Asians, and I don't think it is fair to bring the Asia Foundation as an analogy here because they sit in this room. Here today is a congressional fellow from the Asia Foundation; he's not interfering in American politics. He's not trying to influence me how to vote, or influence the Democrats how to vote, or the Republicans.

The truth of the matter is, the National Endowment for Democracy is an undemocratic organization, and I know the chairman of the board and the president are going to point me to the presence of two blacks on the board, which is an embarrassment to me because they are close friends of mine; and they sit there and see that these grants are given without a good cross section of America.

Selling democracy—what better way to sell democracy than the immigrants of America who have come here and made a success? Not one Asian group, domestic Asian group which I represent, has been funded. And it is a little ridiculous to talk about taking democracy in the English-speaking Caribbean. That's like taking coal to Newcastle. They can teach us a few lessons. There may be things to be done there, but now that we have gone there—we have funded governments on the right while even labor is bashing—labor movements—by having funded governments on the right. And that is a fact known to you, Mr. Chairman; I brought one of the labor leaders here to meet with you and to meet with Dante Fascell.

And one can go on. I think I was troubled by Mr. Cheney's observation because what he was saying was that this is an organization

to fight communism. Well, if that's the case, let's say that; let's call it a National Endowment to Fight Communism. I thought this was an organization to spread democracy. Fighting communism is not necessarily spreading democracy because there are no Communists in the English-speaking Caribbean that I know of; there's just one in Antigua, and a couple of my colleagues wanted to give the Antiguan Government a Navy boat to fight that one Communist. Believe it; that's a true story.

I think Mr. McCurdy was indulging in the oversell. NED hasn't funded any labor movement in Haiti; they've funded a group that nobody knows about, a brandnew group—and they did so without even having the courtesy to discuss this matter with the Congressional Black Caucus which, for the last 5 years, more than any other group in America, has pioneered the notion of democracy in Haiti.

One can go on and on. And I am here as a member of the board of the National Democratic Institute, with a tremendous amount of ambivalence. You know, I have prevented Mr. Conyers from coming on the floor to oppose the authorization and the appropriation because I wanted to give it a chance to settle. I am convinced that the Democratic National Institute is doing a good job, but as a Member of Congress, I don't know what the Republicans are doing; I don't know what the chamber of commerce is doing. I know that labor has indulged itself in Panama and France and has received some bad publicity, and I've raised that issue. I know that they went for the overkill in Grenada; it wasn't necessary for the Republicans to spend all this money in Grenada when Blaise was going to win anyway, and when Grenada had a democratic election all structured. I mean, one can go on and on.

I think that some of the members here are indulging in overkill on the benefits of the Endowment.

And, Mr. Chairman, finally, let me say this. Yes, you listen and you try to correct, but nothing you say to NED has any effect on their change. And I could cite you a particular instance where I was involved—and the lady from Maine knows that—where I was particularly involved. And what did NED do? They put out the disinformation that the institute which I was attempting to get some funding for was affiliated with the PLO. I mean, that was the sort of disinformation. Why did they put that? Because this university, the only black university—the oldest black university in the United States, which has an Islamic center—automatically was a PLO school. With a Baptist seminary in it. That is the disinformation, and that is why they did not fund it. And never had the courtesy to inform the school why they did not fund them.

Now, I asked my staff—there must be 20 schools, white schools, with Islamic centers in the country. They never got the PLO label. So when one really examines, you would have to stretch it quite a bit to really justify the existence of NED as it is so structured now.

And I say to you in conclusion, I support NED because of my 26 years of friendship with Chuck Minnett, and I don't know how to face him to say no. If he were to call me and tell me, Merv, you can't oppose NED, I would probably crumble because we go all the way back to Los Angeles. And my deep, deep admiration for the staff of NDI, which I think is doing a good job despite its high over-

head, Mr. Brown—they are really doing it; they are really implementing what NED was intended to do. Not interfering, not trying to overthrow governments or fund just conservative groups or anti-Communist groups; they're really trying to tell people across the world—and they have been to Asia; they have been to the Caribbean; they have been to Latin America, to Africa—they have really been trying to spread the word about what democracy is all about without trying to interfere.

So, Mr. Chairman, again I thank you very much. I do want to reserve some time next year when the authorization hearing comes up.

Mr. FRANK. Mr. Chairman, I'd just like to say that I know the gentleman said he'd try to dissuade the gentleman from Michigan from opposing it. I think many of us would be dissuaded from opposing it; if he would line up more support like that, we wouldn't feel the need to oppose it at all.

Mr. SMITH. Mr. Chairman.

Mr. MICA. Mr. Smith.

Mr. SMITH. Let me go back a minute. Mr. Frank mentioned something which I thought was absolutely correct, and I want to explore that point because I think he glossed over it in a way that shouldn't be missed.

You're right, there is no consistent policy between the administration and Congress in terms of what we're doing around the world; and even within the administration, there isn't any consistency. NED and some of the other programs are congressional initiatives where we try to do what is not being done by the administration; and if, in fact, the administration is in Chile doing what we consider is inappropriate, it's sometimes very difficult for us to change that around. And there is a congressional—I believe—directive of what we need to do that is capable of being instituted in some way, those of us who believe that it ought to be so, that Congress has a role to play in shaping that kind of democratic leaning, and I agree with Mr. Dymally that the fact that it's pro-democratic doesn't mean necessarily it has to be specifically anticommunist. You can spread democracy without having necessarily the other ingredient. And I think that the Congress of the United States needs to continue that kind of effort, to put the kind of on-the-ground programs that the people in the street can understand. And when an administration cozier up to the Government, there's still a presence of the United States among the people who are going to count in the future that is going to be there to be pointed to and to show the way, and that is, to me, more important.

Mr. FRANK. But that simply, I don't think, is factually accurate as much as I'd like to believe it because I don't think you're going to find, for instance, with the Chamber of Commerce and the Republican National Committee—that they're going to be more responsive to Congress on this than they are to the President. The AFL-CIO is automatically going to—and I just don't think the chosen instrument is there.

Mr. SMITH. Well, let me stop you there. One of the things that should be done—and right here is where there is already, I think, some consternation—is that there ought to be more of an overview about the projects which are funded through the core groups which

are given monies by NED. There ought to be more of an exercise of control by the board in being independent.

Mr. FRANK. My preference would be—and I think you could avoid all these problems if you could pick some entities out that are doing the right thing and try and give them some of the money. But you get these gooks whose primary focus is other things. I mean, the AFL-CIO, chamber of commerce, Democrats and Republicans—it's a nice political mix but it's not who you would pick, I think, to go and institute democracy around the world. They've got too many institutional ties of their own. I think if we want to do it that way, we'd be better off starting fresh with some institutions we could create, and let them do it and not have all these other competing pulls that they're inevitably going to have.

Mr. SMITH. Well, let me just close by also saying that with reference to this problem of overhead, you know, there are some problems that we've created ourselves. NED's rules provide that all administrative costs, whether they relate to the program which is being funded or not, be chargeable against that; and therefore, the 66 percent that is being bandied about here really doesn't have any relation to the overhead of a specific program that NED may have funded which is being utilized by one of those core groups. It just doesn't.

Mr. FRANK. In some cases, we'd be better if they had more overhead and less program. We wouldn't have been embarrassed so much.

Mr. SMITH. Well, it's good to be glib, but the reality is that there are some things that need to be addressed specifically, and inaccuracies are not appropriate.

Mr. BROWN. Can I speak to that?

Mr. MICA. All right. Let me do this, though. We are on a bit of a narrow timeframe here. If you'll respond, and then we'll call up Mr. Gershman.

Mr. BROWN. Just very briefly.

My concern when this first came about was that the political parties would use this as a place of warehousing political operatives instead of using it for the purpose that it was meant for. And, as a matter of fact, some of them did hire people who were let go from political jobs to take over.

Mr. SMITH. They have to bring you back from Florida.

Mr. BROWN. I guess the frustrating wall that I seem to run into here is when we talk about real abuses of the way the public money is handled. It is dismissed because the purpose is good; 54 percent overhead—

Mr. SMITH. You are correct. You are correct. I don't think anybody—

Mr. BROWN [continuing]. Is wrong—

Mr. SMITH [continuing]. Disagrees with you on that particular point.

Mr. BROWN. But, you know, we have a bill in that corrects that, and it's not got a hearing. There is a way to correct the abuses without doing away with the good purpose. There is a way to deal with the conflict of interests. There is a way to deal with the self-serving aspects and requiring sensible audits. All you have to do is

get legislation out that deals with the conflict of interest and corrects it, and it can be done. And frankly, I've talked to the board members, too; they're good people. Many of them favor those kinds of reforms. They don't favor all of them. But there is a way to deal with these things.

Mr. SMITH. Well, I think these overview hearings, frankly, are going to have the ultimate goal of doing basically what needs to be done to change it.

Mr. MICA. Maybe we can get all of the members who testified for and against to get away for 4 or 5 days and we'll rewrite the whole legislation and address everybody's concerns.

We thank each of you for being with us.

We will now call to the witness table Mr. Carl Gershman, president of the now famous National Endowment for Democracy, and Mr. John Richardson, chairman and treasurer of NED. Please take the table.

Gentlemen, you've heard the charges. [Laughter.]

Mr. Gershman, Would you like to proceed?

Mr. RICHARDSON. Mr. Chairman, with your permission, may I read a brief opening statement?

Mr. MICA. Certainly.

STATEMENT OF JOHN RICHARDSON, CHAIRMAN AND TREASURER, NATIONAL ENDOWMENT FOR DEMOCRACY

Mr. RICHARDSON. We want to thank you for the opportunity to testify. I want to thank you for the opportunity to come here as Chairman of the Board of this interesting—and, I believe, fundamentally important—institution.

My testimony will be very brief since Carl Gershman, the president of the Endowment, will be testifying in more detail. Of course, we will both be happy to answer any questions, including some of those that have been raised in the colloquy earlier.

May I first thank you, Mr. Chairman, and the members of the committee for your interest in our work and for calling these hearings, and for the very helpful colloquy that members have undertaken here. The comments of the members have been very illuminating and will be helpful to the Board. The hearings are obviously useful and opportune.

We who serve on the Board are grateful for the opportunity which the President and the Congress have provided. We on the Board are well aware of the difficulties, some of which have been presented this afternoon, and are all, I think, united in the conviction that this institution in its early stages is already developing the procedures, developing the approaches, developing the strategies and the techniques that will make it what you gentlemen and lady wish us to make it.

We all appreciate the vital role of private institutions in the struggle for democracy around the world. From my own work in private medical assistance in Poland in the 1960's and as Assistant Secretary of State for Educational and Cultural Affairs in the 1970's, and from some 20 years of volunteer leadership positions in Freedom House and refugee work for the International Rescue Committee as well as my present professional position of president

of Youth for Understanding, I've come to have a very strong conviction about the powerful contribution that private, nonprofit organizations are capable of in America to our international relations. There is already an enormous force being exerted in the world through the great variety of American organizations contributing to the development of self-government, human rights, and free institutions abroad.

The Endowment's Board, as has been pointed out, is composed of prominent men and women from the mainstream of American political and civic life, from all sides of the democratic center. It is a forum where the experience and perspective of major elements of the American private sector are brought together to define a coordinated program with clear direction and priorities. Here the extensive field experience of the American labor movement, the worldwide network of chambers of commerce, and the practical know-how of our political parties, plus the invaluable personal and professional experience of individual members of the Endowment Board provide an extraordinarily broad base of information for the preparation of the organization's programs and priorities.

And here, Mr. Chairman, I would appreciate it if you would allow us to insert at this point a list of Endowment Board members in the record. They have been discussed and referred to, and I would hope to have it in the record at this point.

[The material referred to follows:]

National Endowment for Democracy

Officers and Directors

Officers

John Richardson, Chairman
 Frank J. Fahrenkopf, Jr., Vice Chairman
 Louis Martin, Secretary
 Sally Shelton-Colby, Treasurer
 Carl Gershman, President

Board of Directors

Ms. Polly Baca
 Vice Chairman, Democratic National Committee
 State Senator, Colorado

The Honorable
 William E. Brock III
 U.S. Secretary of Labor

Mrs. LeGree Daniels
 Chairman, Pennsylvania State Tax Equalization Board

Mr. Frank J. Fahrenkopf, Jr.
 Chairman, Republican National Committee

The Honorable Dante B. Fascell
 U.S. House of Representatives

The Honorable Orrin G. Hatch
 U.S. Senate

Mr. Lane Kirkland
 President, AFL-CIO

The Honorable
 Henry A. Kissinger
 Kissinger and Associates

Mr. Charles T. Manatt
 Manatt, Phelps, Rothenberg and Tunney

Mr. Louis Martin
Assistant Vice President for Communications
Howard University

The Honorable
Walter F. Mondale
Winston and Strawn

Mr. John Richardson
President, Youth for Understanding

Dr. Olin Robison
President, Middlebury College

Mr. Albert Shanker
President, American Federation of Teachers
Vice President, AFL-CIO

The Honorable
Sally Shelton-Colby
Vice President, Bankers Trust Company

Mr. Charles H. Smith, Jr.
Chairman of the Board, SIFCO Industries, Inc.

Mr. Jay Van Andel
Chairman of the Board, Amway Corporation

Mr. MICA. We would also like to have each of the names noted, of the ones who oppose the way it's presently constructed, as we understand it. [Laughter.]

Mr. RICHARDSON. Well, I will consult my fellow members.

Mr. MICA. Let me just indicate here that, without objection, your entire statements will also be included in the record.

Mr. RICHARDSON. Thank you, Mr. Chairman.

Things have been changing at the Endowment, Mr. Chairman, as you know well. We are moving in a positive direction, both in monitoring and in oversight. Ours is a very delicate, difficult, challenging, exciting, and important assignment. We have to operate openly, account for programs and funds fully, and still respond sensitively to the needs of people seeking peaceful paths to self-rule in a multiplicity of cultures and circumstances.

The Board is proud of the Endowment's accomplishments in its brief existence and enthusiastic about the promise of our future successes.

I will now ask Carl Gershman to describe some of those successes in greater detail, and I thank you again, Mr. Chairman and members of the committee, for your interest and your willingness to hold this hearing and to give us the support that you so evidently do.

Thank you.

[The prepared statement of Mr. Richardson follows:]

PREPARED STATEMENT OF JOHN RICHARDSON, CHAIRMAN, NATIONAL ENDOWMENT FOR
DEMOCRACY

Mr. Chairman, thank you for the opportunity to testify today in my capacity as Chairman of the National Endowment for Democracy's Board of Directors. My testimony will be brief, since Carl Gershman, the Endowment's President, will be testifying in greater detail. We will, of course, both be happy to answer any questions the Committee may have.

May I first, Mr. Chairman, thank you and the members of the Committee for your interest in our work and for calling these hearings. The hearings have presented an opportune forum to review our work and progress.

We who serve on the Board are grateful for the opportunity which the President and the Congress have provided. All of us appreciate the vital role private organizations can play in support of democracy and freedom in the world. From my own work on private medical assistance to Poland in the 1950s, my service as President of Radio Free Europe in the '60s, as Assistant Secretary of State for Educational and Cultural Affairs in the '70s and, in some twenty years of volunteer leadership positions in Freedom House and in refugee work for the International

Rescue Committee, I have come to appreciate the powerful contribution private nonprofit organizations are capable of in America. There is already a tremendous force being exerted in the world through the enormous variety of American organizations contributing to the development of self government, human rights and free institutions around the world.

The Endowment's Board is composed of prominent men and women from the mainstream of American political and civic life -- Democrats and Republicans, representatives of business and labor, and others with long international experience. It is a forum where the experience and perspective of the major elements of the American private sector can be brought together to define a coordinated program with clear direction and priorities. Here the extensive field experience of the American labor movement, the worldwide network of chambers of commerce and business associations, the practical know-how of our political parties, and the invaluable personal and professional experience of individual members of the Endowment Board provide an extraordinarily broad base of information for the preparation of the organization's programs and priorities.

Mr. Chairman, things have been changing at the Endowment and we are moving in a positive direction, both in our monitoring and oversight capabilities and in our programs. Ours is a delicate and challenging assignment. We must operate openly, account for programs and funds fully, and still respond sensitively to the needs of people seeking peaceful paths to self-rule in a multiplicity of cultures and circumstances.

We are proud of the Endowment's accomplishments in its brief existence and enthusiastic about the promise of our future successes. I will now defer to Carl Gershman, who will describe those successes in greater detail, and I thank you for your consideration, Mr. Chairman.

Mr. MICA. Well, I thank the gentleman. I do appreciate the gentleman giving us these words, but I really hope that as we proceed in these hearings you will take to heart the criticisms that have been leveled by our colleagues and, either via transcript that we can provide you with or if you have taken notes, I would appreciate having your comments on each of the criticisms that have been leveled and any additional information you can provide with those comments so that we'll have that for the record.

There will be an additional hearing, as you understand. I think you are well aware that this committee will be faced with defending this program on the floor. There obviously is going to be some heated opposition, and every comment—and I mean this sincerely, as one who is trying to be helpful to NED—every comment and every criticism that we've had, I will attempt to address to the satisfaction of our colleagues.

Mr. RICHARDSON. Thank you, Mr. Chairman. We are eager to respond just as you suggest.

[The following material was subsequently submitted:]

Criticisms/Issues Raised in Hearings

Mr. Mica requested that we supply responses to criticisms raised during testimony by Members of Congress before the Subcommittee. We are pleased to have the opportunity to respond to each of these issues.

Criticisms/Issues Raised:

Mr. Conyers: "... in the course of doing so [promoting democracy] it [NED] has created much more difficult problems by meddling in the internal politics of other countries abroad and by ignoring the Congressional intent and the spirit of the laws that created them here."

The Endowment has never sought to "meddle in the internal politics" of other countries; rather it seeks to be responsive to the needs of democrats abroad who ask for its assistance. As its selection criteria make clear, the Board looks most favorably on proposals which "originate from an organization within a particular country representing the group whose needs are to be addressed." The Endowment does not attempt to steer a group or nation toward the adoption of any particular set of policies, but only to provide assistance to those working for democratic development.

The Endowment's programs support private groups abroad, not governments. Nonetheless it is interesting to note that the Department of State has indicated that it has never received a single complaint against the Endowment from a foreign

government. This does not, of course, include the attacks upon our work which appear periodically in dispatches from the Soviet and Polish news agencies (TASS and PAP).

Mr. Conyers also stated that the Endowment has spent money endorsing candidates and has spent money covertly.

This is simply not true. The Endowment has always operated openly. In fact, at one of its early Board meetings, in June of 1984, the Directors explicitly adopted an openness policy. As you know, Congress has since amended the NED Act to make the Endowment subject to the Freedom of Information Act. As USIA stated in testimony before your subcommittee, it is very pleased with NED's compliance under the FOIA Act.

Also at the meeting in June 1984, the Board made clear its views on interference in elections abroad. It unanimously adopted a resolution stating that no Endowment funds may be used to finance the campaigns of candidates for public office. Further, the Board directed the staff to include this provision in every grant agreement signed between NED and a grantee. No grantee has violated this provision.

Mr. Conyers testified that foreign grantees of the Endowment have lobbied the Congress on foreign policy issues.

The Congressman seems to be referring to the allegations which were made in the Washington Post this past March about a private, nonprofit U.S. organization, Prodemca, which was awarded a grant from the Endowment to provide assistance to La Prensa, the only independent newspaper in Nicaragua. The charge was made that Prodemca has misused Endowment funds to lobby the Congress. At the request of this subcommittee, USIA conducted an audit of our grant to Prodemca and declared in testimony before this committee that the charges were completely unfounded; that there had been no improper use of Endowment funds.

Neither the Endowment nor any of its grantees may use government monies to seek to influence U.S. public opinion or the policies of the U.S. government. In fact, this prohibition is not only contained in the Endowment's Grant Guidelines and Selection Criteria, but also as Article VIII of every grant agreement the Endowment signs.

Mr. Brown indicated that the fact that representatives of core grantees serve on the Endowment's Board of Directors had resulted in a disproportionate share of NED resources (88%) going to these grantees in 1984 and 1985.

It is important to point out that it was the U.S. Congress -- not the Endowment's Board -- which determined the level of funding for the earmarked grantees, the Free Trade Union Institute and the Center for International Private Enterprise, in fiscal years 1984 and 1985. In fact, the Congressional earmarks (\$13.8 million for FTUI and \$2.5 million for CIPE) constituted 91% of the \$18 million appropriated for the Endowment in 1984.

The Endowment Board sought to reconcile the vastly different amounts contained in the authorizing legislation -- \$31.3 million -- and the appropriation of only \$18 million in 1984. In an attempt to satisfy the spirit of the law and, at the same time, fulfill the broad purposes of the NED Act, which envisioned support for a wide range of private U.S. groups, the Board in fact allotted only \$11 million to FTUI and \$1.7 million to CIPE in 1984. It was at the request of Congressman Brown that the GAO reviewed this Board decision to grant two of the core grantees less than the full amount specified by the earmarks in the authorizing legislation.

The GAO was sympathetic to the Board's intention that funds be available for grants to a wide range of private groups and in fact stated in its ruling that the NED Board acted in a manner that was "understandable in light of the legislative background." At the same time, however, GAO ruled that if at

all possible an agency must comply with the guidelines contained in authorizing legislation. Of course, the Board then complied and awarded the full Congressional earmarks for fiscal year 1985.

Mr. Brown also charged that because of the composition of the NED Board, Endowment staff have avoided monitoring and evaluation of core grantees' programs.

Mr. Brown cites the recent draft report of the GAO concerning the limited staff time and resources devoted to monitoring and evaluation of core grantees' projects. And, while we agree that there is room for improvement, in our view the report did not make sufficiently clear that there are already extensive procedures and controls in place for monitoring and evaluating existing programs, as well as for setting priorities and ensuring proper planning and review prior to the funding of grants.

The Endowment's monitoring and evaluation process includes staff review of quarterly reports and annual reports from its core grantees. In addition, status reports on program activities and expenditures are presented to the Board twice a year. Also, as a matter of routine, NED staff hold monthly monitoring meetings, consult regularly with grantees, as well as with governmental and nongovernmental experts, observe actual program product where possible (publications, major seminars or training sessions), review grantees' self-evaluations and have

conducted selected, though admittedly limited, on-site visits. The Endowment also requires recordkeeping of its grantees and subgrantees and retains the right of access to grantees' books and records. An annual audit by an independent CPA is also required and, of course, the GAO and USIA also have audit rights.

With all this said, we agree that we must strengthen certain of our procedures. As part of this process, the Board adopted a grants policy statement at its March 7 meeting which further clarifies Endowment responsibilities for its grants. Also, at the recent June meeting, the Board approved an additional position for a staff auditor to assist in program monitoring. As the Endowment develops further, we will naturally seek to refine and improve our management practices. The Board has consistently demonstrated its commitment to this process. Nonetheless, we believe sound procedures have long been in place.

Congressman Brown cites the high ratio of administrative to program costs of the National Democratic and National Republican Institutes for International Affairs.

The Congressman unfairly suggests that the administrative costs of these two core grantees were extremely high for the period of 1984-1985. What he does not point out is that 1984

and 1985 were abnormal years for NDI and NRI. In fiscal year 1984 each party institute, as a core grantee of the Endowment, received \$1.5 million. When Congress prohibited any 1985 funding for these two institutes, each had to stretch an intended one-year budget across more than two fiscal years. It is for this reason alone that the administrative costs cited by Congressman Brown reflect an abnormal -- and seemingly high -- rate. The administrative cost rate which has been budgeted by the National Democratic and the National Republican Institutes for fiscal year 1986 is approximately one half the rate during the previous two year period.

Mr. Frank questions whether or not, in a time of severe budgetary constraint, the Endowment is "the most useful...the best use of our money."

Americans have been concerned for some time that military force is not a sufficient means by which the United States can exercise influence in the world and compete with its adversaries. Nor is it necessarily the most efficient means. After all, the battle of ideas -- the attempt to influence thinking and values -- is crucial. Attempts to achieve through force what cannot be achieved through persuasion are expensive and often futile.

In that sense, the effort to strengthen democratic values and organizations is an extremely prudent and efficient use of resources. If we are successful in winning friends, influencing beliefs, and strengthening democratic institutions and practices, we will in the long run save ourselves much grief as well as money. Given the virtual military and strategic stalemate that exists in the world, the need to compete politically takes on an even greater importance.

In a recent editorial on the need to help establish democracy in Haiti, the Philippines and Grenada -- countries where dictatorships have recently fallen -- The New Republic wrote: "Another way one can help new democracies is with creative programs such as those sponsored by the National Endowment for Democracy.... You're awfully unpopular if you recommend anything that costs money these days. But ... [I]f ten years hence, Haiti, the Philippines and Grenada are examples of how democracy can flourish in the Third World, our money will have been well spent."

Mr. Frank also questions whether or not the Endowment can make a real difference in the world in terms of promoting and encouraging democratic development. In fact, he states that "...that's as realistic as saying, what's a better way to bring democracy to Chile, sacrificing a goat or praying to the full moon?"

It is of course too early to make a judgment on the effect of the Endowment's activities. But, already, in a number of key

situations where elections have been an essential aspect of successful democratic transitions -- in the Philippines, for example, and in Grenada and Guatemala -- Endowment support was extremely important and was recognized as such by the democratic groups involved as well as by the U.S. government.

Endowment support is also making a real difference in many other situations: in Afghanistan, where NED support has made possible the establishment of an independent education system; in Poland, where NED support helps sustain Solidarity and other independent civil and cultural institutions; in Central America, where NED support has helped the independent Nicaraguan newspaper La Prensa to survive and has sponsored the creation of a regional democratic book program called Libro Libre; and in Haiti, where timely NED support has made possible the establishment of democratic unions and civic organizations in the post-Duvalier era.

Of course, democracy has not yet come to Chile, but if and when it does, the democratic forces in Chile will find they had a friend in the Endowment and, by extension, the United States. The support being given to democratic labor, academic and political groups in Chile is not just a concrete contribution to their work, but is also an expression of solidarity, a symbol of American concern and commitment. The existence of such support and the demonstration of our solidarity is an aspect of the Endowment's role from which our country will reap untold benefits of good will and appreciation. Indeed, given the relatively meagre resources involved, the advantages to the United States and to the democratic cause generally are extraordinary.

**STATEMENT OF CARL GERSHMAN, PRESIDENT, NATIONAL
ENDOWMENT FOR DEMOCRACY**

Mr. GERSHMAN. Thank you, Mr. Chairman. I am pleased to testify today as part of the comprehensive review which the committee is undertaking of the procedures and programs of the National Endowment for Democracy. We applaud the careful attention which the subcommittee—and particularly you, Mr. Chairman—have paid to our work. I believe that the Endowment can only benefit from such close scrutiny.

We are particularly pleased that the testimony provided to your subcommittee last week by the General Accounting Office, the U.S. Information Agency, and the Department of State showed that the Endowment is establishing sound procedures and is improving its ability to review, monitor, and evaluate the scores—indeed, hundreds—of programs it now funds.

An outside observer at last week's hearings might have been struck by the overwhelming emphasis on procedure, oversight, and accountability. I do not take this to mean that the subcommittee is uninterested in the substantive, programmatic aspects of our work, but rather that it understands that without sound procedures, even the best programs will be in jeopardy. This is especially true of a new, boldly conceived, and innovative institution such as the National Endowment for Democracy. We have an ambitious mandate that requires us to support democratic forces in some of the most difficult, complex, and often dangerous political situations in the world.

Moreover, we are required to operate openly, making fully available to the Congress and the public the record of our programs, transactions, expenditures, and other activities that bear upon our work. As the testimony by the USIA last week made clear, we are fully complying with our responsibilities under the Freedom of Information Act.

The Endowment must constantly seek to strike a delicate balance between competing objectives. For example, we are an independent, nongovernmental organization. This is absolutely essential to the successful conduct of our work; yet, we must consult with representatives of our Government to explain our work, receive their counsel, and ensure that our programs are supportive of the national interest. The testimony last week by the representative of the Department of State indicates the excellent rapport that has already been established between the Endowment and the Government.

Not least, the Endowment has sought to strike a balance between the original concept of the organization as "a funding source"—to use the GAO's term—and coordinating mechanism for major private sector groups which would design and implement their own programs; and a concept modified as a result of congressional concern, according to which the Endowment would have a much more active oversight role. The March 7 grants policy statement of the board, which I would like to submit for the record, seeks to preserve those aspects of the original concept that are compatible with the kind of Endowment role that is now required.

[The material referred to follows:]

NATIONAL ENDOWMENT FOR DEMOCRACYGRANTS POLICY

The Board of Directors of the National Endowment for Democracy, at a meeting on January 27, 1986, decided to undertake a review and reevaluation of its overall procedures, with emphasis on the Endowment's relationship to its grantees. This Board action was prompted, in part, by changes in the governing legislation as well as by the need to define a grants policy that takes into account the unique relationship to the Endowment of the four founding institutes -- the Center for International Private Enterprise, the Free Trade Union Institute, the National Democratic Institute and National Republican Institute for International Affairs.

The procedures outlined before seek to establish this policy by defining the Endowment's relationship to its grantees and the degree of oversight necessary to fulfill its responsibilities in the use of Congressionally appropriated funds.

As a grantmaking organization, the Endowment has certain responsibilities that govern its relationship with all potential and actual grantees. Briefly, these are:

- A. Setting program priorities within the framework of the purposes outlined in NED's articles of incorporation and contained in the legislation, and guided by the general policy Statement of the Board of Directors;
- B. Reviewing and vetting proposals, guided by the general guidelines and selection criteria adopted by the Endowment Board. This examination includes an assessment of the quality of the proposed project, its relation to NED purposes, the democratic as well as management credentials of those receiving NED funds, and the reasonableness of the budget and amount requested. To ensure that the Endowment has the necessary information to thoroughly review all proposals, they should be presented on a project-by-project basis and should provide detailed information regarding each proposed grant or subgrant. Proposals should include a summary of the grant proposal, a detailed description of the program, reasons for Endowment support, background organizational and political information about the grantee or subgrantee, and specific budget information broken

down programmatically, i.e., according to the specific activities proposed, as well as by budget categories.

In cases where continuation or follow-up of a previously funded project is requested, a review and a summary of the evaluation of the previously funded project should be included.

- C. Coordinating among all grantees to avoid duplication and to assure maximum program effectiveness;

- D. Negotiating a grant agreement which, while tailored to the particular characteristics of a given grantee and/or program, ensures a uniform high standard of accountability on the part of each grantee;

- E. Financial and programmatic monitoring following the approval and negotiation of a grant; and ongoing and/or follow-up evaluation of programs prior to any subsequent funding of either a particular grantee or a specific program.

Grantees will also be expected to monitor projects, to provide regular reports to the Endowment on the progress of programs, and to inform the Endowment promptly of any significant problems that could affect the successful implementation of the project. NED grantees will also conduct their own evaluations of programs.

F. As a recipient of congressionally appropriated funds, the Endowment has a special responsibility to:

- operate openly,
- provide relevant information on programs & operations to the public,
- ensure that funds are spent wisely, efficiently, and in accordance with all relevant regulations.

As stated earlier, institutes representing business, labor, and the major political parties carry out programs which are central to the purposes of the Endowment. As a result of their unique relationship to the Endowment, institute programs are an integral part of the Endowment's priorities and the institutes

themselves are "core" grantees. As such, the institutes, while subject to all the normal procedures governing Endowment relationships with grantees, will be treated differently in the following respects:

- A. The institutes will have the mandate to carry out programs funded by the Endowment in their respective sectors of business, labor and political parties.
- B. As an integral part of the process of budgeting and setting program priorities, the Endowment Board will target a certain amount of its annual resources for institute programs in their respective fields of activity.
- C. Unlike its practice for the majority of its grantees, the Endowment will fund significant administrative costs for each of the core grantees.
- D. Institute staff will assume responsibility for program development and preparation of proposals for the Board in each field of activity for which it has a special mandate.
- [E. The Endowment will expect its core grantees to perform their monitoring/evaluation function described in point E. above in a manner that will minimize the need to devote Endowment resources for these purposes.]

Mr. GERSHMAN. It sets forth Endowment policies governing the relationship with all our grantees, while at the same time explicitly defining the unique relationship of the Endowment to the four core grantees. The Endowment is a stronger organization as a result of its ability to evolve while preserving those aspects of its structure that are essential to its overall success.

These are just some of the instances where the Endowment must seek to reconcile competing objectives. There are, of course, others; above all, the need to assist democratic groups abroad in a manner consistent with our own interests and values, without lapsing into any tendency to control or manipulate indigenous efforts to build free and democratic institutions.

Given the complex nature of our work and the need to respect competing values, it is proper that the Endowment is governed by a bipartisan board that reflects the diversity and vigorous pluralism of America itself.

As the GAO indicated in its testimony last week, the Endowment is a changing institution. Your own hearings, Mr. Chairman, as well as the GAO report, will assist this process. In this respect, the GAO report is like a photograph of one aspect of the Endowment—our procedures for program review, monitoring and evaluation—at one point in time. The GAO does not get into the substance of programs or into the difficult question of how successful we have been in fashioning a program that actually promotes democracy, nor was it asked to look at these matters. And understandably, its procedural focus was on areas where the Endowment must strengthen its capabilities or clarify its policies, particularly regarding verification and evaluation.

What was not made sufficiently clear in the report, in our view, is that there are already extensive procedures and controls in place for setting priorities, ensuring proper planning and review, and monitoring and evaluating existing programs.

Mr. Chairman, in my prepared statement I have a fairly lengthy discussion of the procedures that are in place. I also have a document which we've prepared which outlines all of the procedures which we use to review, monitor, and evaluate programs, and I'd like to submit that for the record.

Mr. MICA. Without objection, it will be included.

[The material referred to follows:]

NED PROGRAM STAFF FUNCTIONSA. Proposal Review of Non-institute Proposals:

1. Proposal distribution to staff for initial review.
 - a. Consultation with outside sources-governmental and non-governmental.
2. Weekly program meetings-discussion of proposals.
3. Monthly distribution of proposal summary in original form to Endowment Board members.
4. On-going discussions concerning proposals with proposal writers, governmental/non-governmental observers.
5. After preliminary review reveals seriousness of proposals, program staff must begin consultation with financial/contracts staff for budget evaluation and financial management capabilities of the foreign organization.
6. Program staff begins process of identifying a compatible, responsible U.S. partner for proposals submitted without U.S. grantee recommendations.
7. For institute proposals, Endowment program staff must review and insure all necessary information included and purpose of each program is clearly stated for the Board's consideration.
8. Several weeks prior to formal quarterly Board meetings, proposal review meeting is held--all Board members are invited to attend. Program staff must be prepared to answer any questions or details of proposals.
9. Final preparation of program material for Board books.

B. Monitoring

1. Review all:
 - a. Quarterly reports
 - b. Final reports (includes summary of all program activities and an evaluation)
 - c. Annual reports
2. Monthly monitoring meetings
 - a. Program staff reviews program activity highlights, reporting schedules and expenditures.
 - b. Program staff reports on program progress or problems.
 - c. Program staff assignments are made as appropriate.

3. On-going monitoring

- a. Meetings at Endowment with grantees
- b. Review of reports and program products
- c. Site visits by Endowment staff
- d. Briefings by Embassy and State Dept. staff; as well as outside observers.

C. Evaluations

- 1. Generally--Endowment staff measurement of quarterly reports; consultations with grantees/subgrantees, government/non-government officials, participants and informed observers. Also, written and oral evaluations by foreign and U.S. grantees, independent CPA reports, GAO, USIA, and NED audit reports.
- 2. Explanation regarding self-evaluation
 - a. Core grantees: more weight put on self-evaluations of core grantees due to close relationship with NED, known expertise in respective areas of work, and NED's ongoing experience with the grantee.
 - b. Other grantees: need to build a record with NED before the same degree of confidence evolves. Those with a history of government funding often need less direct supervision, those which are small and have maintained total independence from government funding may require closer direction and more scrutiny in evaluations.
- 3. Program review, monitoring, evaluation principals
 - a. Non-core grantees: the less direct experience the Endowment has had with a U.S. or foreign group, the closer the oversight must be. NED must track the program/financial history of the grant in order to make an assessment during the course of, or after compilation of, the grant. Evaluation should take into consideration political evolutions during the course of the program to determine whether any program changes were justified or due to lack of clarity in original objectives and implementation.

(1) Three-tiered evaluations

Foreign grantee encouraged to set out evaluation plan in proposal. Evaluation to be included in final report. U.S. grantee asked to add their own contribution to evaluation, focusing on their experience, observations of performance of foreign grantee. Endowment to perform its own assessment of both U.S. and foreign grantees, especially if renewed funding is requested. NED direct

experience with grantees supplemented by on-site consultations/observations, oral and written reports of grantees, as well as consultation with governmental and non-governmental participants, observers of the program.

- b. Core grantees: institute's in-house expertise, Endowment's knowledge of in-house review process and institute Board review, allow for a greater degree of reliance on the four institutes for their respective program development and review. Endowment staff's primary role is to ensure institute proposals meet overall Endowment purposes and criteria, and that information provided is adequate. Any of the procedures used for review, monitoring, and evaluation of non-core grantees, may be applied on a selective basis to institute grantees.
4. Endowment Board - final evaluation authority

The Board of Directors of the Endowment has the final authority for determining the value of any program, and may rely on the advice and observations of the Endowment staff, institute staffs, or any other outside source which they may choose to consult. Written bi-annual status reports on a project-by-project basis are prepared by institute and Endowment program staff and presented to the Board, as well as periodic oral reports, and the Endowment's annual report. [Summary evaluations should be presented to the Board prior to renewed funding.]

Mr. GERSHMAN. This is not to say that there isn't room for improvement. The Endowment recognizes that the March 7 statement on grants policy, adopted at our most recent board meeting, requires implementation. We are in the process of reviewing our procedures and staffing needs in the light of this new policy.

The GAO report and the hearings of this committee will obviously provide crucial assistance to this process.

We are talking about building a sound procedural foundation for a program that is hardly pedestrian. We should not lose sight of those who are the ultimate beneficiaries of our work—people struggling to begin a process of democratic transition in Chile or Paraguay; to consolidate democratic gains in the Philippines and Haiti; the many Latin American countries that have only recently taken the historic step away from authoritarianism; people working in Eastern Europe to construct, within a totalitarian system, the independent institutions of civil society; teachers trying to reconstruct an education system in Afghanistan under conditions of war; and groups struggling nonviolently to abolish apartheid in South Africa, where violence is now an everyday phenomenon. These and other people around the world now look to the Endowment as a source of concrete assistance and moral solidarity. We cannot let them down.

In conclusion, Mr. Chairman, I would just like to quote the concluding two paragraphs of an article that appears in this week's *New Republic* on the need to promote democracy in Haiti and the Philippines after the transitions that have taken place there:

Another way we can help new democracies is with creative programs such as those sponsored by the National Endowment for Democracy. NED-supported independent trade unions and election observers were instrumental in effecting Marcos' ouster. By sponsoring non-governmental democratic institutions, such as independent trade unions, NED has arguably done more to promote democracy in Haiti and the Philippines for a few million dollars than AID has done by spending a hundred times as much. In Grenada, another nation where we have an opportunity to promote the superiority of democracy, NED has supported an innovative voter education project. The United States has spent nearly \$1,000 per capita in Grenada since October 1983. We have begun to learn that you can't buy democratic institutions; you have to build them.

You are awfully unpopular if you recommend anything that costs money these days. But it's hard to think of a more worthwhile way for our government to blow another few hundred million. If 10 years hence, Haiti, the Philippines, and Grenada are examples of how democracy can flourish in the Third World, our money will have been well spent. Thank you, Mr. Chairman.

[The prepared statement of Mr. Gershman follows:]

PREPARED STATEMENT OF CARL GERSHMAN, PRESIDENT, NATIONAL ENDOWMENT FOR
DEMOCRACY

Thank you Mr. Chairman.

I am is pleased to testify today as part of the comprehensive review which this committee is undertaking of the procedures and programs of the the National Endowment for Democracy. We applaud the careful attention which the subcommittee, and in particular you, Mr. Chairman, have paid to our work. I believe that the Endowment can only benefit from such close scrutiny.

We are particularly pleased that the testimony provided to your subcommittee last week by the General Accounting Office, the United States Information Agency, and the Department of State showed that the Endowment is establishing sound procedures and is improving its ability to review, monitor and evaluate the scores, indeed hundreds, of programs it now funds.

An outside observer at last week's hearings might have been struck by the overwhelming emphasis on procedure, oversight, and accountability. I do not take this to mean that the subcommittee is uninterested in the substantive, programmatic

aspects of our work, but rather that it understands that without sound procedures, even the best programs will be in jeopardy.

This is especially true of a new, boldly conceived, and innovative institution such as the National Endowment for Democracy. We have an ambitious mandate that requires us to support democratic forces in some of the most difficult, complex, and often dangerous political situations in the world.

Moreover, we are required to operate openly, making fully available to the Congress and the public the record of our programs, transactions, expenditures and other activities that bear upon our work. And as the testimony by the USIA last week made clear, we are fully complying with our responsibilities under the Freedom of Information Act.

The Endowment must constantly seek to strike a delicate balance between competing objectives. For example, we are an independent, nongovernmental organization. This is absolutely essential to the successful conduct of our work. Yet we must consult with representatives of our government to explain our work, receive their counsel, and insure that our programs are supportive of the national interest. The testimony last week by the representative of the Department of State indicates the

excellent rapport that has already been established between the Endowment and the Government.

Not least, the Endowment has sought to strike a balance between the original concept of the organization as "a funding source" (to use the GAO's term) and coordinating mechanism for major private sector groups which would design and implement their own programs; and a concept modified as a result of congressional concern, according to which the Endowment would have a much more active oversight role. The March 7th grants policy statement of the Board, which I would like to submit for the record, seeks to preserve those aspects of the original concept that are compatible with the kind of Endowment role that is now required. It sets forth Endowment policies governing the relationship with all grantees, while at the same time explicitly defining the unique relationship to the Endowment of the four core grantees: the Free Trade Union Institute, the Center for International Private Enterprise, the National Democratic Institute for International Affairs, and the National Republican Institute for International Affairs. The Endowment is a stronger organization as a result of its ability to evolve while preserving those aspects of its structure that are essential to its overall success.

These are just some of the instances where the Endowment must seek to reconcile competing objectives. There are of course others, above all the need to assist democratic groups abroad in a manner consistent with our own interests and values, without lapsing into any tendency to control or manipulate indigenous efforts to build free and democratic institutions.

Given the complex nature of our work and the need to respect competing values, it is proper that the Endowment is governed by a bipartisan Board that reflects the diversity and vigorous pluralism of America itself. As an institution, we are partisan on behalf of nothing but democracy. It is significant that a Board so representative of competing U.S. institutions and viewpoints has been able to agree upon so clear and bold a program in the Philippines and Afghanistan, throughout Central America, the Caribbean, and South America, including countries as sensitive as Chile, Paraguay and Nicaragua, and not excluding a concern with totalitarian Cuba; in Africa and especially South Africa, in Southern and Eastern Europe, in the Soviet Union, and not least in China, the world's largest country. This surely is a hopeful sign that there is a genuine bipartisan consensus in this country in favor of promoting democracy abroad.

As the GAO indicated in its testimony last week, the Endowment is a changing institution. Your own hearings,

Mr. Chairman, as well as the GAO report, will assist this process. In this respect, the GAO report is like a photograph of one aspect of the Endowment -- our procedures for program review, monitoring and evaluation -- at one point in time. The GAO does not get into the substance of programs or into the difficult question of how successful we have been in fashioning a program that actually promotes democracy. Nor was it asked to look at these matters. And understandably, its procedural focus was on areas where the Endowment must strengthen its capabilities or clarify its policies, particularly regarding verification and evaluation.

What was not made sufficiently clear in the report, in our view, is that there are already extensive procedures and controls in place for setting priorities, insuring proper planning and review, and monitoring and evaluating existing programs.

Program planning and review is a case in point. It should be remembered that as a grant-making agency that does not carry out its own programs, the Endowment is necessarily dependent on the proposals it receives. In addition, it seeks to be responsive to the views and needs of democrats abroad, rather than impose rigid priorities upon them.

The NED Board devoted considerable effort to formulating the Statement of Principles and Objectives it adopted in December 1984. This document defines NED's priority program areas, provides a framework to guide prospective grantees, and is regularly referred to in proposal presentations to the Board.

Moreover, the Endowment has convened a series of meetings with government and independent specialists, NED and Institute staff, and Board members to discuss regions and countries of special concern (e.g. Eastern Europe and the Soviet Union, Latin America and Africa, with special meetings on Chile, Haiti, the Philippines and South Africa). The importance of focusing on key countries is implicit in the proposal review process and is reflected in the actual allocation of funds.

Obviously, if the Endowment receives an excellent proposal from a non-priority country, we will seek to be as responsive as possible. Too often, priority is defined solely in terms of issues that have reached the crisis stage, whereas the Endowment hopes to anticipate and help prevent crises in countries which may now be spared the distinction of being a priority. Planning without flexibility and responsiveness can be as bad as random program selection.

I note that the GAO comments favorably on our review of discretionary grant proposals in FY84 and FY85. Understandably, our procedures differed with respect to earmarked grantees. Since earmarked funds were set aside for core grantees during these years, their proposals did not have to be judged against competing proposals. The Endowment's responsibility was to determine simply whether the proposed programs fit the purposes of the legislation. Hence there was less demand for detail or stringent review.

With the removal of earmarks in FY86, this process has been changing. As GAO notes, a December 1985 memo from the NED program director required the same degree of program detail in core grantees' proposals as for discretionaries.

In addition, the March 7, 1986 policy statement adopted by the Board affirmed Endowment responsibility for reviewing all proposals according to a single standard, while giving core grantees responsibility for program development and preparation of proposals for the Board in their respective fields, and also placing upon them the chief -- though not exclusive or final -- burden of program monitoring and evaluation.

The Endowment's extensive review procedures include evaluation of the prospective grantees' programmatic and financial capability, direct contact in Washington and often in-country with prospective grantees, review of proposals by government and nongovernmental specialists and formal consultation with the Department of State. I should add that while there is a winnowing out process during the staff review, summaries of all proposals received by the Endowment are sent to the Board every month, and Board members may request that any proposal be discussed at an upcoming Board meeting.

The monitoring and evaluation process includes staff review of quarterly reports, final reports which must include program evaluation, and annual reports by core grantees. In addition, status reports on program activities and expenditures are presented to the Board twice a year.

Furthermore, as a matter of routine, NED staff holds monthly monitoring meetings, consults regularly with grantees, as well as with governmental and non-governmental experts, conducts selected on-site visits, observes actual program product where possible (publications, major seminars or training sessions) and reviews grantees self-evaluations.

NED requires record keeping by grantees and subgrantees and has the right of access to grantee and subgrantee books and records. It requires an annual audit by an independent CPA, and of course, GAO and USIA also have audit rights which have been exercised almost continuously, in the case of the GAO, since the very beginning of Endowment operations.

This is not to say that there isn't room for improvement. GAO rightly points to verification as an area where the Endowment must strengthen its procedures. And we must also be in a position to make informed evaluations of all programs. Evaluation assumes a special importance during a period when, inevitably, we will be making program decisions based upon the allocation of extremely limited resources.

The Endowment recognizes that the March 7 statement on grants policy adopted at our most recent Board meeting requires implementation, and we are already in the process of reviewing our procedures and staffing needs in the light of this new policy. The GAO report and the hearings of this committee will obviously provide crucial assistance to this process.

All this may sound rather dry and bureaucratic. But what we are talking about is building a sound procedural foundation for a program that is hardly pedestrian. We should not lose sight

of those who are the ultimate beneficiaries of our work -- people struggling to begin a process of democratic transition in Chile or Paraguay, or to consolidate democratic gains in the Philippines, Haiti and many Latin American countries that have only recently taken the historic step away from authoritarianism; people working in Eastern Europe to construct within a totalitarian system the independent institutions of civil society; teachers trying to reconstruct an education system in Afghanistan under conditions of war; and groups struggling nonviolently to abolish apartheid in South Africa, where violence is now an everyday phenomenon.

These and other people around the world now look to the Endowment as a source of concrete assistance and moral solidarity. We cannot let them down.

Gradually, the Endowment is establishing its presence and defining its role at the same time as it is developing its procedures. It is a unique and essential institution, for we live in a world of nuclear stalemate, in which political competition will assume an ever-growing importance.

The Endowment offers a new and profoundly important way to engage in this competition. The task of strengthening the Endowment is thus far more than a limited bureaucratic exercise. It is a job that has great moral and political implications which lend special meaning to our deliberations today.

Mr. MICA. Did I understand you to be against AID? [Laughter.] In the spirit of true bipartisanship, I'd like to call first for questioning Ms. Snowe.

Ms. SNOWE. Thank you, Mr. Chairman.

Thank you, Mr. Gershman and Mr. Richardson, for your testimony here today. Obviously, we've had a number of questions raised about the National Endowment for Democracy, and some of those issues have been addressed by your testimony here today.

I'm frankly somewhat concerned about some of the issues that have been raised time and time again. First and foremost in my mind is the issue of what might appear to be a conflict of interest by virtue of the representation of the core grantees on the National Endowment for Democracy Board, and I just wonder what is lost by not having them represented on the Board. I guess you can't have it both ways; you can't have the core grantees represented on the Board that happen to be present when their own grants are being discussed—I gather that they do not vote on their specific grants, but they are present during the course of those discussions—and then, second, are not conducting the kind of self-evaluations that are required. And based on the GAO report, it was indicated that these core grantees were not submitting their self-evaluations in a timely fashion. They were not conducting the auditing that was required of them.

So I guess I have several questions. One of them is, Why is it so necessary to have the core grantees represented on the Board? And second, doesn't this represent a conflict of interest? And something has to develop that we eliminate this appearance of conflict of interest between the Board and the issuance of these grants to the core grantees.

Mr. RICHARDSON. First, let me say that the Board has this question very much under consideration now. We have a subcommittee that is looking into the very issues that you have specified because they have been raised in the Congress, and there will be a further deliberation on it by the full Board at our next meeting in June.

I think what is important to recognize is that we have a changing situation. The legal structure, the legal concept of the enterprise is changing. At the beginning, it was, I think, the consensus of those in the Congress who sponsored this idea and those outside the Congress who lent support that it would make sense to have some of the major institutions in our society get together and work together for democracy abroad; work together, in a collaborative and coordinated way with each other. And the original idea was, really, that the Board would have the need for a mechanism to effect that.

There has been an evolution since the Endowment's beginning then which has not departed from that concept, but which has enlarged it. We now have representatives, of course, on the Board from many different walks of life in the United States; many of us have no particular connection with any of these major core institutions. And that is often forgotten. The Board does consist of a large number of people who are not connected with these major institutions. And, believe me, those individuals are all very vocal and very strong people. If one looks at the list of the Board, one wouldn't have any doubt about that.

When the Congress decided that the four institutions should no longer be specified as primary grantees of the Endowment, it somewhat changed the basic concept that we began with. I think everyone on the board would agree with that statement. The question is, Where do we go from here? That question is being looked at with a view to bringing about a result which is in the interests of what we all want to do. And believe me, if you attended those meetings as I have, every one since we began, you would get a sense of the commitment of all of the people in that room to try to do a good job for the United States and for our beliefs and our purposes. Certainly, a mission isn't enough; but this Board is very serious about developing the modalities, the strategies, and the instrumentalities to accomplish the objectives.

Ms. SNOWE. Do you want to comment on that?

Mr. GERSHMAN. Well, I would like to elaborate. I think the Endowment, as the GAO report made clear, is an institution that is in the process of evolution. The GAO was looking at the Endowment's monitoring and evaluation of earmarked grantees during the period of 1984 and 1985. And the Endowment understood, by the very fact of earmarking, that these funds were obviously set aside for these core institutions; they were not competing against other funds. And naturally, this required a different set of procedures and demand for detail and review of core grantee proposals. It was our job to ascertain whether or not these programs were consistent with the legislation and, in fact, we thought that they were.

With the changes that have taken place, the Endowment has now adopted and made explicit a new set of procedures, which the GAO referred to rather extensively in its report. This grants policy was adopted only on March 7 by our Board. It sets forth a set of procedures which apply to all grantees equally. Also, I think, it explicitly describes how the core grantees are different because they do have a special relationship to the Endowment, are noted in the legislation, and have a special role, given their institutional position in our society, in spreading democracy around the world. They are, therefore, core grantees with special responsibilities and obligations to the Endowment.

It is my view that, given this new set of procedures which we have adopted, we should be given a chance to let them work. And I think that they can work. I certainly feel that the Board we have is a very diverse Board; it's a board which has applied critical judgment to institute proposals as well as discretionary proposals, and I think we should give it a chance.

One of the remarkable things about this Board, I think, is its diversity, the fact that it does genuinely reflect the pluralism of our society. It's very hard to put together a board that would be more reflective of genuine mainstream elements in American society. The fact that you have a board like this—which is not one of those bipartisan boards where everybody agrees, but one that really brings together different points of view—that has been able to agree upon a program as diverse as that of the Endowment in countries as different as Nicaragua and Chile, South Africa, the Soviet Union, and so forth, I think that's very encouraging about the possibility to build bipartisan consensus around the idea of democracy in our society. And I think we've been successful in that

regard, and I think as long as we can fashion the proper oversight mechanisms—which we are in the process of doing—I think it can work.

Ms. SNOWE. How long will it take to implement your policy statement? Again, according to the GAO, you have not specified how that policy statement will be implemented. You also indicated that you expected to monitor and evaluate these programs in a manner that will minimize the need to devote Endowment resources for these purposes. I don't know how you can accomplish that in the event that you will be increasing your monitoring and evaluating responsibilities.

And second, according to the GAO again—and I'd like to have both of you comment—the Board's discussion indicated that there were some misgivings about increasing the role of the National Endowment for Democracy in the core grantees' activities, and I wondered to what extent that will interfere with a proper and objective evaluation of the core grantees' activities? Or was that merely discussion that will not carry over and influence the ultimate implementation of your policy statement?

Mr. RICHARDSON. I think it is much more of the latter than the former. It was a discussion—there have been discussions, continuing discussions; we're still in the middle of discussions, informal and formal—as to exactly how to proceed. We are going through a change of relationships internally, and there is always some creaking and yawing and pulling in a situation like that. But I think the board as a whole is determined to make this work. As Mr. Gershan says, it can work, and we all think so. I think that's a general belief on the Board, and we're going to work just as hard as we can to make sure that it does.

Mr. GERSHMAN. Well, I think one of our concerns with the GAO report which is, on the whole, a very fair and balanced report, is that it doesn't give an adequate sense of the procedures that are already in place. If you'll bear with me just for a moment, on review, monitoring, and evaluation, these procedures include evaluation of the prospective grantee's programmatic and financial capability, direct contact in Washington and often in-country with prospective grantees, review of proposals by governmental and non-governmental specialists, and formal consultation with the Department of State.

The monitoring and evaluation process includes staff review of quarterly reports, final reports—which must include program evaluations—and annual reports by core grantees. In addition, status reports on program activities and expenditures are presented to the Board twice a year.

Furthermore, as a matter of routine, the NED staff holds monthly monitoring meetings, consults regularly with grantees as well as with governmental and non-governmental experts, conducts selected on-site visits, observes actual program product where possible—publications, major seminars, and training sessions—and reviews grantees' self-evaluations. NED requires recordkeeping by grantees and subgrantees and has the right of access to grantee and subgrantee books and records. It requires an annual audit by an independent CPA; and, of course, the GAO and USIA also have audit

rights which have been exercised almost continuously in the case of the GAO since the very beginning of the Endowment.

Now, we do believe that, in the case of the core grantees, you have institutions which have not only a special relationship to the Endowment, but a special expertise, especially in the case of labor which has had 25 years' experience here, but also in the case of the parties and the Chamber Institute. Now, we don't think the Endowment should be in a position where it should be duplicating work that is done. We do feel that the Endowment ultimately must be in a position to evaluate self-evaluations and be able to verify information, and there the GAO does point to an area where we have to strengthen our ability, through audits involving compliance testing and other methods, to verify information. We think we can do that, but we have to work with our grantees in evaluating programs, which we do now.

And in the case of those grantees which have the greatest expertise and the most experience in the use of public monies and so forth, we think it would be simply duplicating our activities if we did all over again the jobs which they are doing in monitoring and evaluation. We think that we can minimize our need to do that, thereby bringing down administrative costs as was referred to earlier as an issue which we would want to be concerned about.

I do want to add, by the way, on the issue of administrative costs—since this was raised in a rather unfair fashion before, in the case of the Democratic and Republican Parties—they are referring to administrative costs, of a single grant which was, by necessity, a 2-year grant because of the elimination of funding for the party institutes during the period of 1985, fiscal year 1985. And I think the fact that they were able to maintain their program and their staffs during this very difficult period is a great accomplishment. Those do not reflect standard administrative costs within the Endowment, but the very unusual and unique circumstances which were created by the decision of Congress not to allow funding to the two party institutes during fiscal year 1985.

Ms. SNOWE. Thank you both very much.

Thank you, Mr. Chairman.

Mr. MICA. Thank you. And I might tell Ms. Snowe, I'll rotate the time back and forth so we'll be fair with each other.

You mentioned, incidentally, that there are recordkeeping standards, you require those. Maybe you could give us a copy of those standards, what you require in the way of recordkeeping.

[The material was subsequently submitted.]

Every Endowment grantee is subject to the following audit and oversight procedures:

1. Each grantee must keep such records as may be reasonably necessary to fully disclose the amount and the disposition by the grantee of the funds granted under the terms of the Endowment's grant agreement, the total cost of the project or undertaking in connection with which such funds are given or used, and the nature of that portion of the cost of the project or undertaking supplied by other sources, and such other records as will facilitate an effective audit.

2. The accounts of grantees are audited annually in accordance with generally accepted auditing standards by independent certified public accountants or independent licensed public accountants certified licensed by a regulatory authority of a State or other political subdivision of the United States. Audits are conducted at the place where the accounts of the grantee are normally kept. All books, accounts,

financial records, reports, files, and all other papers, things, or property belonging to or in use by the grantee and necessary to facilitate the audits are made available to the person or persons conducting the audits; and full facilities for verifying transactions with any assets held by depositories, fiscal agents, and custodians shall be afforded to such person or persons.

3. The report of each such independent audit is provided to the Endowment. The audit reports sets forth the scope of the audit and includes such statements as are necessary to present fairly the grantee's assets and liabilities, surplus or deficit, with an analysis of the changes therein during the year, and a statement of the application of funds, together with the independent auditor's opinion of those statements.

4. The financial transactions of a grantee for each fiscal year are also subject to audit by the U.S. General Accounting Office. Any such audit is conducted at the place or places where accounts of the grantee are normally kept. The representatives of the General Accounting Office have access to all books, accounts, records, reports, files and all other papers or property belonging to or in use by the grantee

pertaining to its financial transactions and necessary to facilitate the audit. GAO auditors are afforded full facilities for verifying transactions with any assets held by depositories, fiscal agents and custodians.

5. The Endowment also reserves the right to conduct or have conducted its own audit of each grantee in the exercise of its obligations under the Act and the USIA Grant.
6. Concerning reports, the Endowment requires both quarterly and annual reports from its grantees covering both program and financial activities. The annual report of each grantee is used by NED in compiling its own annual report for the President and the U.S. Congress.
7. The Endowment consults with the Department of State on all overseas programs funded by NED prior to the commencement of the activities of that program.
8. Board members and officers of Endowment grantees are available to testify (together with Board members and officers of the Endowment) before appropriate committees of the Congress.

Mr. MICA. Also, is there a standard set of criteria for evaluation?

Mr. GERSHMAN. We have a standard set of criteria for program review, and those are the same criteria we would then evaluate according to the objectives that the grantee set forth in the proposal as—

Mr. MICA. Would you repeat that?

Mr. GERSHMAN. One would evaluate according to what was said was hoped to be accomplished, program objectives. One would evaluate how those program objectives were—

Mr. MICA. But you have written out a set of criteria that you check along points A, B, C, D—I'd like to get a copy of that, if you would supply the committee with that.

[The following material was subsequently submitted:]

Grant Guidelines and Selection CriteriaGuidelines

The following grant guidelines indicate the minimal standards required of all grant applications to be considered qualified for further evaluation in the selection process.

1. The proposed program, project or activity must be consistent with the six Endowment purposes as listed in the Endowment Articles of Incorporation and the National Endowment for Democracy Act.

The six purposes are:

- (a) to encourage free and democratic institutions throughout the world through private sector initiatives, including activities which promote the individual rights and freedoms (including internationally recognized human rights) which are essential to the functioning of democratic institutions;
- (b) to facilitate exchanges between United States private sector groups (especially the two major American political parties, labor, and business) and democratic groups abroad;
- (c) to promote United States nongovernmental participation (especially through the two major American political parties, labor, business, and other private sector groups) in democratic training programs and democratic institution-building abroad;
- (d) to strengthen democratic electoral processes abroad through timely measures in cooperation with indigenous democratic forces;

- (e) to support the participation of the two major American political parties, labor, business, and other United States private sector groups in fostering cooperation with those abroad dedicated to the cultural values, institutions, and organizations of democratic pluralism; and
 - (f) to encourage the establishment and growth of democratic development in a manner consistent both with the broad concerns of United States national interests and with the specific requirements of the democratic groups in other countries which are aided by programs funded by the Endowment.
2. The proposing organization must provide the following required information as part of its grant application:
- (a) Organizational background and biographical data on key staff and directors in the U.S. and abroad;
 - (b) Project description, clearly defined objectives (susceptible to assessment), realistic time frame, and anticipated results;
 - (c) Justification of the project in terms of the Endowment's statement of purposes (specifically, what practical impact will achievement of the project's goals have in reference to the Endowment's stated purposes);
 - (d) Description of any counterpart support, whether monetary or in-kind, domestic or foreign, anticipated by the applicant;
 - (e) A detailed budget, including a breakdown and explanation of all anticipated expenses;
 - (f) Methods of internal evaluation (related to project objectives) to be used by project managers;
 - (g) Names and addresses of all other funding organizations to which the proposal has been submitted or will be submitted.
3. The proposing organization must be able to show that it is a responsible, credible organization or group that has a serious and demonstrable commitment to democratic values. (Various factors may be considered in this regard: recognized democratic orientation; established professional reputation; proven ability to perform; organization has charter, board of directors, regular audits, etc.)

4. The proposing organization must be willing to comply with all provisions of the NED Act as well as all provisions of current and subsequent agreements between the U.S. Information Agency and the Endowment.
5. The proposing organization must agree not to use grant funds for the purpose of educating, training, or informing U.S. audiences of any U.S. political party's policy or practice, or candidate for office. (This condition does not exclude making grants or expenditures for the purpose of educating, training or informing audiences of other countries on the institutions and values of democracy that may incidentally educate, train, or inform American participants.)
6. The proposing organization must agree that no Endowment funds will be used for lobbying or propaganda which is directed at influencing public policy decisions of the government of the United States or of any state or locality thereof.
7. The proposing organization must agree that there shall be no expenditure of Endowment funds for the purpose of supporting physical violence by individuals, groups or governments.
8. The proposing organization may not employ any person engaged in intelligence activity on behalf of the United States government or any other government.
9. The Endowment will not normally reimburse grantees for expenses incurred prior to the signing of a grant agreement with the Endowment.
10. Each grant made by the Endowment will be an independent action implying no future commitment on the Endowment's part to a project or program.
11. The Endowment may, from time to time, fund feasibility studies. Applications for grants in this category should include, but not be limited to, the following:
 - a. scope, method and objective of the study;
 - b. calendar;
 - c. proposed administration of the study; and
 - d. detailed budget.

The funding of a feasibility study by the Endowment does not imply support for any project growing out of the study. It does, however, imply interest by the Endowment in the area under study and a willingness to entertain a project proposal growing out of the study.

12. The proposing organization may not use Endowment funds to finance the campaigns of candidates for public office.

Selection Criteria

The following selection criteria indicate factors to be considered in determining the relative merit of a particular proposal.

The grant application:

1. proposes a program that will make a concrete contribution to assisting foreign individuals or groups who are working for democratic ends and who need the Endowment's assistance.
2. proposes a program, project or activity which is consistent with current Endowment program priorities and contributes to overall program balance and effectiveness.
3. proposes an activity which meets an especially urgent need.
4. does not overlap with what others are doing well.
5. proposes a program which will encourage an intellectual climate which is favorable to the growth of democratic institutions.
6. proposes a program which is not only culturally or intellectually appealing, but which will affect the education and the awareness of communities and/or the less privileged members of a society.
7. originates from an organization within a particular country representing the group whose needs are to be addressed.
8. appears to be well thought out, avoiding imprudent activities and possibilities for negative repercussions.
9. takes into consideration not only what objectively could be significant to a certain society, but how the cultural traditions and values of that society will react to the project.
10. incorporates an analysis of the problem of democracy in the area in question and the method by which the proposed program will have a constructive impact on the problem.

11. proposes a program that will enhance our understanding of what really helps in aiding democracy.
12. creatively enlists support of foreign democratic organizations.
13. encourages democratic solutions and peaceful resolution of conflict in situations otherwise fraught with violence.
14. proposes a program, project or activity that is clearly relevant to Endowment program objectives and not better funded by other government or private organizations. (Proposing organizations will be referred to other funding organizations where substantial overlap exists.)
15. proposes a program or strategy which is appropriate to the circumstances in the country concerned.
16. proposes (a) a program which can be expected to have a multiplier effect, hence having an impact broader than that of the specific project itself; or (b) establishes a model which could be readily replicated in other countries or institutions.
17. proposes appropriate, qualified staff who have a demonstrated ability to administer programs capably so as to accomplish stated goals and objectives.
18. proposes an appropriate ratio of administrative to program funds.
19. is responsive to Endowment suggestions with regard to program revisions.
20. proposes a realistic budget which is consistent with Endowment perceptions of project value and is performed within a stated and realistic time frame.
21. proposes a program that has, as one of its principal aspects, a major impact on the role of women and/or minorities.

Mr. MICA. One of the criticisms as I recall that GAO told us last week was that the goals of the grantees were somewhat vague. In other words, if you have a very general goal, then it's almost impossible to evaluate; or if you evaluate it, you can make the evaluation come out any way you want if the goals are rather nebulous and vague. I believe GAO was talking about delineating more clearly the goals of specific grantees. Are you doing that? Or do you read it that way?

Mr. GERSHMAN. Well—

Mr. MICA. Or do you philosophically object to that?

Mr. GERSHMAN. I think that everything depends upon the program. There are some programs where you can apply quantitative evaluation—the number of books published, circulation, a meeting that was held, who attended, the speeches that were given, and so forth. I mean, one can evaluate—

Mr. MICA. Well, all right. Now, for instance, with books being published, I don't think you have to say a number of books be published; but you might be saying, for instance, that the intent of this grant is to assist in the publishing of books. And if a book is published or books are published, or some manuscripts are three-quarters of the way complete that's one way to assess it. But if the grant was, for instance, indicating that it was for the purpose of some creative general writing, that's a much broader scope. That's the point that I'm getting at.

Now, I do understand that you could have a philosophical objection when saying, we want to narrow some of these grants. I would tell you that a gentleman like Mr. Frank, I think, would say that that's where mischief can begin, and that maybe there ought to be—within the bounds that you can accept, philosophically—some narrower approaches. I don't know. I'm posing the question.

Mr. GERSHMAN. Well, what I was saying is that there are certain aspects of programs, and certain programs, which can be evaluated with narrow criteria, concrete criteria, on a quantitative basis, perhaps. However I think, by its very nature, the evaluation of success in building democracy is going to be difficult. We have to examine programs; we have to get a lot of input into this evaluation from people who are in one way or another specialists in fields to get a sense of how programs are being carried out—

Mr. MICA. I think maybe we're missing each other here. When you talk about evaluating the project in terms of how it's building democracy, I can see right there a problem in never evaluating positively. Even if you had published 100 books, to measure the impact on democracy in a given region, country, or geographic area would be inconclusive. But what we're talking about more is the specific goal of the given applicant, the grantee. And I do believe there are some areas where we can tighten up. I don't agree with everything that Mr. Frank said, but I understand the concern. When you give some money open-ended, with vague goals, it's very easy to get into trouble.

Mr. Richardson.

Mr. RICHARDSON. Well, I only wanted to say that I understand what Mr. Frank was saying too, but I don't agree with him. I think, in fact, the projects that I've looked at in great detail—and I've looked at a great many of them in the course of program re-

views of one kind or another over the last several years—generally do have very specific objectives stated. That is the characteristic.

Now, you can't always do that. Sometimes there aren't books to be published or there aren't meetings to be held or—

Mr. MICA. Well, just off the cuff would you say 90 percent of the projects are very specific in nature, or 80 percent, or 50 percent? Any idea?

Mr. GERSHMAN. I'd say in my view, frankly, I think all of them are. When we present a project to our board, we present it first with a very brief summary so you can state very clearly what the project is all about. One then has to give the political context in which the project is being presented, the specific individuals involved, the specific objectives which are to be achieved, the specific reasons why it's worthy of Endowment support. And here is where the board must exercise very critical judgment, and I believe that they have not been satisfied where a proposal has been in any way vague; they have simply not approved the project.

I don't think you can get a project of that kind past the board. And if one reads through the materials that are presented to the board, one sees projects of a very high degree of specificity involving names, individuals, programs, projects, and so forth. So I think on that score, a review of the kinds of projects which we have supported already would stand us very well.

Mr. MICA. Well, now, in line with the review, one of the GAO criticisms—again, I'm trying to recall and maybe I'm off base on this—was the staff itself wasn't sure of its responsibilities in reviewing grants and how to proceed with reviews. Is that the problem? In other words, you're saying that they're all specific but they're not reviewing them with the same criteria? Does the staff know what their duties are? GAO indicated apparently not.

Mr. GERSHMAN. Well, I think that's a different issue which relates to the period during which it was not clear, with the earmarkings, what the responsibilities of staff were. And now, with our March 7 statement, we've made that very clear.

Mr. MICA. There's no question—

Mr. GERSHMAN. We now require in each proposal—and we'd be happy to give you all the documents, here—a high degree of specificity in all proposals, whether they come from discretionary, which the GAO was satisfied with, or from core grantees. There is now a very high degree of specificity required in all proposals, a high level of detail, the same level of detail that we've had in discretionary proposals. So right now, I don't think that's a problem.

Mr. MICA. All right.

My time has expired. I'll rotate to Ms. Snowe.

But let me just ask without objection, I have about 30 questions here I'd like to submit for the record and ask you to respond to. If I get a chance to ask a few of these before we leave I will, but we're running very short on time here.

We have some questions on the GAO report, on the new policy statement and some general questions. We'll submit those for the record and ask you to respond to them, please.¹

¹ See app. 1.

Mr. MICA. Ms. Snowe.

Ms. SNOWE. Thank you, Mr. Chairman.

Mr. Richardson and Mr. Gershman, I was looking over your draft document for NED's grant policy. And again, it appears as though, based on your statement, that you will continue to treat core grantees differently. And I just wondered on what basis you make that policy statement, that they will be treated differently? And the fact is, that they will receive significant administrative costs for each of the core grantees.

So what relationship will the core grantees have to the discretionary grantees? And why will they be treated differently?

Mr. GERSHMAN. Well, they're treated differently, first of all, because they have a very different relationship to the Endowment historically. In terms of the evolution of the Endowment, they are all referred to in the legislation. They have a very unique and central role in American society and a very special expertise and the institutions which they are part of are very central institutions in any pluralist democracy. That is why they became core grantees in the first place. Therefore in order to carry out our work it was understood that it was necessary to have these core groups so that we would have competent grantees that could carry out programs in the fields of labor, business, and parties, which are essential aspects of a democracy.

The Endowment also has a very great confidence in these institutes, especially the three new ones, which are developing at a very rapid rate a high degree of expertise in their areas. And, of course, labor has had a high degree of expertise over time. It was felt, therefore, that we would make explicit this relationship. It is not a unique concept; there are agencies in the Government which have core grantees to carry out programs, and we felt that rather than leaving this whole issue of their relationship vague or ambiguous in any way, we would make it explicit in a policy statement that they do, in fact, have a unique relationship with the Endowment, that they do have a very special responsibility in terms of carrying out the objectives of the Endowment—not exclusive in the sense that there are other areas of work which are also essential in terms of strengthening democracy, but certainly these are central areas and therefore they have been designated as core grantees to carry out programs in these areas.

Ms. SNOWE. Well, then, why does it suggest that they will be receiving a significant amount of administrative costs? I mean, there is no specific mandate—I understand what you are saying in the thrust of the National Endowment for Democracy and why they obviously would be major grantees. But on the other hand, I think that they do receive a significant advantage, and that is what concerns me; and I think that that is really fundamental to the problems that have been raised in Congress. Frankly, I'm beginning to believe that some change has to be made legislatively in order to address these problems or they're going to continue to reoccur time and time again, and NED is never going to get on an equal footing. I mean, I share the goals espoused by the Board and the whole agency, and I'm willing to continue to support it; but I do think that some changes have to be made. And I guess I don't have the full assurances right now that in spite of the policy statement, in

spite of the changes, that we're going to remove some of the problems that NED has been beset with over time since its inception.

Mr. RICHARDSON. Well, I think it's difficult for me to respond when the Board is in the middle of discussing these very issues. I understand what you're saying; I think all of us understand that we have a kind of a dilemma, but I come back to the transition that it seems to me we're in, that the Board is taking responsibility for responding to the changed circumstances, and that the statement we adopted in March was a first step in that direction. We have a subcommittee at work, thinking about the very questions that have been raised here, and we are trying to come to grips with it as a group. So far, we've been very successful in resolving issues as they've arisen on this Board, and we've tried to stay ahead of what was needed in terms of changes in the structure and procedures and approach. I hope that we can continue to do so.

I don't know that I can be more specific. I don't think that I would want to comment on your legislative suggestions.

Ms. SNOWE. Well, we have 17 Board members, and you meet four times a year; is that right?

Mr. RICHARDSON. Yes, that's normal.

Ms. SNOWE. OK. How many of these members attend all four of the meetings? I mean, what is the attendance of the Board members?

Mr. RICHARDSON. Well, in my experience, and I've been on an awful lot of boards, it's one of the highest attendance records that I've seen, in spite of the fact that most of the members are busier than most boards I'm on. It's an excellent record.

Do you have any figures, Mr. Gershman?

Mr. GERSHMAN. First of all, we have requirements in our by-laws in which no proposal can be adopted by the Board unless it has a minimum of an absolute majority vote of the total Board. So with a 17-member Board—in order to even do any business in terms of approving proposals—you need at least 9 people there.

Generally, I would say there are about 14 Board members at a meeting. It varies; some have made every meeting. I think the attendance overall has been very good.

I would like to comment, though, on your idea of fairness here. We understood the concern in Congress to be oversight, and the concern of the GAO to be in the areas of review, monitoring, and evaluation that no one was questioning the fact that these four institutes are indeed, and should be, core grantees. What we felt it was necessary to do in this statement was to make explicit these relationships and these distinctions, which we have tried to do. But also, to make very explicit that there is this oversight role which the Endowment will have so that we can eliminate the ambiguity which existed during the first 2 years and which, I think—at least we have been told—was one of the concerns in Congress.

Now that we have done that, we think it is important that we consolidate, as it were, these relationships as core grantees because their work is so important and so central to the Endowment. And there's no reason to overlook the fact that they have this very central relationship, that they are part of the Endowment; they helped bring it into existence, and therefore they do have and deserve the special relationship which they have with the Endowment as long

as we can provide proper oversight over the expenditures of the money in the program. I think we now have come to that point.

Ms. SNOWE. On another issue, just very quickly, concerning Prodemca. This issue was obviously raised in the last hearing, as you know, and the USIA conducted an audit.¹

What is your opinion of requiring separate accounts for NED funds? It seems to me that this issue could have been quickly addressed had Prodemca had a separate account for NED funds so it could have been easily ascertained that these funds were not used for lobbying activities concerning Nicaragua and the Contras. What is your opinion of that? And is that within the purview of NED to require separate accounts for the use of NED funds so that we can avoid it in the future and so that we can simply and quickly address an issue once it is raised?

Mr. GERSHMAN. Even the Government does not require that a private organization receiving its funds keep separate accounts. It can require, as we do, that they keep adequate records so that the expenditure of the funds can be clearly documented.

In the case of this particular Prodemca grant, we required an audit—which we do of all grants—and when the audit was conducted of the first grant, it raised the issue in the audit of the advisability of separate accounts. And it was because of the auditor's recommendation that now Prodemca does keep separate accounts and has separate accounts. This can be recommended. What we can and do require is the keeping of adequate records.

It's very difficult if you have an organization with a large budget from other funds, and we make a small grant for a particular purpose, to say that it must keep a separate account. As long as they keep adequate records, we don't think it's necessary to impose that kind of a burden upon them. If it is advisable, we will recommend it; but the requirement need not go so far as to require separate accounts.

Ms. SNOWE. I guess maybe I don't understand why it is so difficult and why we couldn't require it because simply, I think, it would have put the issue to rest much sooner than requiring an audit that required several months to evaluate and figuring out how those monies were disbursed. So I see it more of a simple matter and a much easier one so we can avoid the kind of controversy that developed.

Mr. GERSHMAN. We stated at the very beginning with respect to Prodemca that they were now keeping separate accounts, and that didn't seem to put the issue to rest. The USIA has now conducted an audit in which they determined, with as careful a consideration as possible, that no funds were used for improper purposes. And yet, the issue was raised today by Members of Congress, saying that they still were not satisfied with the way this was done.

It's very difficult to put an issue like that to rest. I mean, once a lie is circulating, it's very difficult to try to deny it.

Mr. MICA. If the gentlelady will yield on that point?

Ms. SNOWE. I'd be glad to yield to the gentleman.

Mr. MICA. That's the very point that we're getting at here. And I know I've mentioned this to you privately, and I will say it to you publicly. The people you grant money to, they should be "friends of NED." And what we're talking about is judgment. When a question

¹ See app. 2.

is raised, even if there's a clean bill of health—and there was last week in our hearing, a clean bill of health—it's very difficult to put that issue to bed

Mr. GERSHMAN. That's right.

Mr. MICA. And I don't know whether you have any seminars or pamphlets or meetings or discussions with the people you grant money to, but you ought to first—if you can assume they're friends—tell them that judgment is very important in the way they conduct themselves. In my judgment, Prodemca would have been much wiser—if there were 5 men on the Board, or 12 men—to go out and set up a private group and raise the money and buy those ads and not bring Prodemca into it at all, because we will face that issue—you mark my word, we will face that issue for the next 12 months, every time we turn around. I just think it was very poor judgment on the part of your friends. And every one of these instances comes back, and it's another nail in the coffin of NED. And that's something that they need to be advised of. If you can tell them exactly what you just said to the gentlelady here, that if your judgment is faulty and you let these things go, we have to answer it over and over and over again, at least 435 times, and some of my colleagues—with the greatest amount of respect—maybe 870 times. [Laughter.]

Next point. Tell me just for a minute about the board. We've heard some allegations that there are some embarrassed members of the Board who sit there silently. Maybe I misunderstood this.

Is there dissension on the Board?

Mr. RICHARDSON. Mr. Chairman, this is a remarkably solid board, in my view. There are, of course, always differences; you wouldn't expect a group of people who sit on the Board not to disagree about particulars, about strategy. But we have so far, in the 2½ years that we have been meeting, resolved those differences successfully. We have had no conflicts we weren't able to deal with.

Of course there are differences.

Mr. MICA. Well, let me put this in a different way. If I—and I don't want to do this; I'll try to take your word on this—but if I ask my staff to read the minutes of all the meetings, would we find that everybody has had their day and some have not, and that it's been spread around? Or will we find a pattern of one portion of that board being shut out?

Mr. RICHARDSON. I don't believe that you'll find any portion of that Board that hasn't had a full hearing and a full opportunity, and I don't believe anybody on the Board would say so.

Mr. GERSHMAN. I think that's absolutely true, Mr. Chairman. It's a remarkable Board. You have highly talented people. None of them are shy; they express their opinions. And frankly, it's not that easy to get consensus. We the staff try very hard to be in constant consultation with the Board to ascertain their views about different matters, to anticipate their concerns. And still, when we get into Board meetings, the discussions are always very vigorous discussions and interesting discussions about particular projects.

Mr. MICA. Let me be a little more specific, then. Would you say there are one or two or more members, as was indicated by one of our colleagues here, who feel that the Board has been totally

unfair in shutting out certain minority groups and members who represent those groups?

Mr. RICHARDSON. Oh, I'm sorry. I missed your allusion, Mr. Chairman.

Mr. GERSHMAN. So did I.

Mr. RICHARDSON. I don't believe that there is anyone on the board who has that view.

Mr. MICA. Let me just close with this comment. As I said earlier, we will try to address the concerns of all of our colleagues. A quick assessment is that three-quarters or 80 percent of them, we'll be able to address in a reasonable way; some others, we may just not be able to resolve short of votes on the floor, but we'll do our very best to.

But there has been some comment—and in fact, it's been used as a defense; what is the legal term we argue here? Simple defense?—that we have to do this because the law says we have to do it. In effect, there are allegations that you're doing something one way or another, and the defense is, well, the law says we have to do it this way.

If we took NED, left the title intact, struck everything below the title and rewrote the legislation, are there areas or sections that you feel you're being unduly constrained or that could be adjusted by a rewrite of the statute? Are you giving too much to "labor," "chamber?" We will spread that out now. Are you too constrained in the way that you are being put in a position that you have to do something that the law requires you to do that you don't want to do?

Mr. RICHARDSON. Mr. Chairman, let me say that I don't feel that the legislation constrains us unduly. I think the legislation as it stands is an appropriate charter for this enterprise.

Mr. GERSHMAN. I think that in general, the best principle to follow is if we have a good board—and I think we have a good Board—that the decisions as to how best to carry out the purposes of the Endowment should be left up to the Board, and the Congress should review those decisions that we make. I think we're a growing organization; we're developing experience as a result of our work, and I think we're in a position to make these kinds of decisions. To the greatest degree possible, I think those decisions should be left up to the Endowment.

Obviously, where statute requires us—such as in consultation with the Department of State or Freedom of Information Act—we're perfectly happy to comply. We intend to run our operation openly, to coordinate our operations well, and we'll be entirely responsive to Congress to the greatest degree. And I think as things develop, and there is greater confidence in the Board and in the Endowment, that our Board should be in a position to make as many decisions as possible itself.

Mr. MICA. I thank you. I have no further questions.

The subcommittee stands adjourned.

[Whereupon, at 4:10 p.m., the subcommittee adjourned subject to the call of the Chair.]

OVERSIGHT OF THE NATIONAL ENDOWMENT FOR DEMOCRACY

WEDNESDAY, JUNE 11, 1986

HOUSE OF REPRESENTATIVES,
COMMITTEE ON FOREIGN AFFAIRS,
SUBCOMMITTEE ON INTERNATIONAL OPERATIONS,
Washington, DC.

The subcommittee met at 2:20 p.m., in room 2200, Rayburn House Office Building, Hon. Dan Mica (chairman of the subcommittee) presiding.

Mr. MICA. The subcommittee will come to order.

We have permission from the minority to proceed. I will not read my entire opening statement. It would suffice to say that my score sheet on attendance calls this hearing NED-3. Sounds like son of NED-1 and NED-2, but NED-3 oversight, and we would like to welcome the witnesses for the third hearing that is being held on the National Endowment for Democracy.

As those who followed this know we have examined the Endowment from a variety of perspectives, and it goes without saying we will continue to do that.

The General Accounting Office, GAO, has given us an in-depth evaluation of NED's management techniques, its managerial relationship with its grantees and other areas.

The State Department has given us a report on the consultation process of grantees in the various embassies, which was a legislative mandate.

USIA has reported on the segment of its own ongoing audit of NED. And we have heard from NED itself, and as I am sure everyone is aware, a number of congressional supporters and detractors.

Today we will have the four core grantees. Each will tell us a little about their programs and their feelings—and I understand the support or lack of support of congressional initiatives on this program.

[The prepared statement of Mr. Mica follows:]

PREPARED STATEMENT OF HON. DANIEL A. MICA

I would like to welcome the witnesses to the third hearing the subcommittee has held on the National Endowment for Democracy. We have examined the Endowment from a variety of perspectives. The General Accounting Office has given us in-depth evaluation of NED's management techniques and its managerial relationship with its grantees. The State Department has reported to us on the consultation process that has been legislatively mandated between the Department and the Endowment. The U.S. Information Agency has reported on a segment of its own ongoing audit of NED. And we have heard from NED itself and congressional proponents and opponents.

Today, I would like to welcome the four core grantee organizations which have received the bulk of NED funding in the past. I am sure that they will tell us about some of the programs which they have sponsored with Endowment funds. In addition, I hope to get their reactions to some of the recommendations contained in the GAO report which would place more responsibility on the Endowment to evaluate grantee programs and to verify the expenditure of funds.

Testifying first will be Ms. Eugenia Kemble, Executive Director of the Free Trade Union Institute. She will be followed by John Sullivan, Director of Public and Congressional Affairs, Center for International Private Enterprise; The Honorable Brian Atwood, President of the National Democratic Institute for International Affairs, and Keith Schuette, Executive Director of the National Republican Institute for International Affairs.

Mr. MICA. With Mr. Smith's permission, I will ask each witness come up and give their testimony individually. We will hold questions until we have all four core grantees and then get them all up at the table and ask questions at one time.

The first witness will be Eugenia Kemble, executive director of the Free Trade Union Institute.

I won't read this entire list here, but call them in order.

Ms. Kemble, please proceed. Let me advise you that we have read your complete testimony. We will include the entire testimony in the record, and you are certainly welcome to summarize.

STATEMENT OF EUGENIA KEMBLE, EXECUTIVE DIRECTOR, FREE TRADE UNION INSTITUTE, AFL-CIO

Ms. KEMBLE. Thank you.

First of all, let me say that I appreciate this opportunity to testify, as I am grateful for the support this committee has in the past shown for the Endowment, and the work of the Free Trade Union Institute. We know that this program has been controversial and that those of you who do support it do so therefore at some risk, which means we are all the more grateful for that support.

I am glad to be here also with the other core grantees that operate within the Endowment. It was these groups that put the Endowment together in the first place along with a number of other individuals, all of whom felt that it was very important that these private representative groups have a place in the Endowment structure and in its programming.

I want to say that I speak here today only for labor, though I think that nothing I would say is inconsistent with any Endowment policy, and we are supportive of those policies.

I would like to summarize the written testimony for you by referring to three points that I raised: the cap restricting funding, which is admittedly an appropriations issue and not an authorizing issue, but we wanted to put it before you anyway; the composition of the leadership of the Endowment in terms of the membership of its Board; and the daringness of the programs that we have undertaken. It would be best for me to try to integrate these into a single theme which I think pulls them together and illustrates why it is that we have had so much to say about these points.

There is something about labor's presence in this effort—the amount of money it gets, its voice on the Board, which is at this point unique even among the core grantees and within the Endowment itself. It derives from our history of international activism. What has existed since after World War II, expanding in the 1960's

into the Third World, is an extensive private network of common interest in protecting the basic democratic right of working men and women to freely associate into unions.

We have offices in 40 countries. No one else has that in this Endowment operation. In fact they, too, rely in various degrees on our friends and allies abroad in this labor network. Every related move made here in this subcommittee, and the 3-year-old Endowment itself has an impact on our programs. We feel them immediately in those offices and through those contacts.

Moreover, in contrast to most of the other Endowment-funded undertakings, our operation is not a series of discrete programs whose participants have no relationship to one another. For example, the man who leads the union we work with in Nicaragua cares deeply about the future of the union we work with in the Philippines. They are all watching what policy moves are made here that may affect all their futures. They pressure us, they complain to us, they tell us their fears and their concerns. They are an international constituency of already organized and effective people who, because of their experience and contacts, can tell the NED plenty about what is effective when it comes to democracy-building.

They are, I might also say, the ones who shape the labor programs, not us. We don't try to tell them what to do. They come to us with the ideas about what would best help them promote democracy. And it is through us that the international community of free trade unions express themselves in the Endowment arena.

The other core grantees are building networks like this now, but we come to NED with one already there. So when we react to moves by or around the Endowment, we are representing that that extensive and long-established private network. It presses us and we in turn press the Endowment, or Congress, or some government agency. Sometimes there may be some discomfort associated with that.

I suggest that this network of pressure and concern of private labor democrats abroad is what we want in the Endowment if we are to keep our feet on the ground.

What NED and this country itself should want is precisely this sort of an international private democracy constituency. We in labor are part of one and we bring it to the Endowment. When Lane Kirkland or Albert Shanker speak in an Endowment Board meeting, they speak from an international labor context of responses, problems, pressures, and sensitivities. They are firmly rooted in an ongoing democratic struggle.

That is why we are so protective of the private character of NED, I hope that I can get that reasoning across to you because it is very important to us.

I thought I might review very quickly, because I know you want to get to questions, some of the central points in my longer statement.

We found the GAO review to be fundamentally fair. We didn't agree with every single point in it. Our summary on those points is in the statement. I won't go through them all there.

I would like to say, though, that as a result of some of the increased administrative requirements, occasioned by Congressional and GAO inquiries we at FTUI have had to double our staff. This

comes at the same time as we had to cut our field programs to a third of what they were in the previous fiscal year because of the 25 percent cap imposed by the appropriations conference last November. This has had a disruptive impact on our office operation, as well as a devastating one on our program.

Beyond the topic of what is in the GAO report itself are a number of other issues which have to do with more than management. They have to do with policy questions. The cap issue is a very serious one for us. We argue—and now I might point out that this is a consensus position of the Endowment Board—that there should not be such a legislative restriction; that the Endowment Board itself should be in the position of judging programs on their merits and deciding which grants applications are accepted and in what amount. We believe that this can and should be worked out within the Endowment family.

For this year the cap has meant cutting our program in the Philippines in half; our program in Chile in half; decimating our organizing and membership drive programs throughout the world; cutting a number of the programs in all regions. We simply argue that we want to compete with other applicants on the merits.

Now, let me just say a few things about a few of the key programs because I think that will highlight what may seem to be an abstraction up until now, and why I make these arguments.

Look at the Philippines, the largest NED Program of any kind, and not just the largest labor program. We have been working with the Trade Union Congress of the Philippines since 1969, but more recently in a very much expanded program, we have worked with them there in supporting their efforts to get out the vote in the most recent elections.

They work in a context where they are conformed by the insurgency sponsored by the New People's Army. They compete with the KMU, a union funded by the far left. They have developed a number of innovative membership service programs that they would not have without our funds: a health program to train nurses, a cooperative program, revolving loan funds to enable them to have small farmers begin with seed capital to start their work.

This program, in our view, was significant in terms of the recent transition to the Aquino government because it enabled the TUPC to become a major organizational force throughout the countryside which, committed to democratic principles and to insure that what happened in that election would be known throughout the world. While the Communist-sponsored unions and the NPA were calling for a boycott and Marcos cronies in some unions and many businesses were trying to rig the election, the TUCP was engaged in making the February 7 election a more genuine expression of the will of the majority.

I might also point out that the other core groups in the Endowment are working in the Philippines as well.

All this raises the question again: Does it make sense to have a voice for labor within this operation that is a strong voice?

Does it make sense to have a large program in terms of the total funding in a place like the Philippines?

Does it make sense to operate in a country where, yes, 27 people associated with this labor program have been killed in the last 2 years?

I think that the other kinds of points that I raise can only become meaningful when I point to this sort of a program.

In Chile we are working with a central democratic trade union that has recently supported a coalition of parties that are trying to insist that Pinochet move to a civilian government at the time when his term is supposed to be up in 1989. This union's organizing civic education programs have been cut in half as a result of recent decisions in the Congress. Here, too, we are working in tandem with the party institutes to try and insure that there is a consolidated Endowment effort.

How important is our assistance to the democrats with whom we work? The union leader we work with there replaces a trade union leader whose throat was cut. Certainly, support for this effort is something that he definitely needs if the kind of pressures that he faces in that country are to be known around the world. It is partially through his international reputation that he may be protected from that kind of abuse in the future.

I could go on talking about programs. We have a trade union's rights project for Latin America where delegations of Latin American labor leaders go into places like Chile, Guatemala, Honduras, El Salvador, and Nicaragua, and find out what governments are doing to suppress the rights of unionists in those countries. They transmit that information to international bodies. They transmit it to Amnesty International or to the International Confederation of Free Trade Unions, who in turn transmit it to the International Labor Organization.

These programs are risky and daring programs which we hope we will be able to continue to support.

I just wanted to point out some of these examples. There may be plenty of questions that you would have about what we have done in the labor field. I welcome the opportunity to answer them, and thank you for the opportunity to appear here today.

[The prepared statement of Ms. Kemble follows:]

STATEMENT OF EUGENIA KEMBLE, EXECUTIVE DIRECTOR, FREE TRADE UNION
INSTITUTE, AFL-CIO

I am Eugenia Kemble, Executive Director of the Free Trade Union Institute, the Institute tied to the American Federation of Labor and Congress of Industrial Organizations (AFL-CIO) that received 68% of the National Endowment for Democracy's funds during the first two years of its operation.

I have personally been associated with the evolution of the Endowment beginning with the initiation of the Democracy Program study that recommended its creation. That study began shortly after President Reagan gave a speech to the British Parliament in June of 1982 urging the participation of major American interest groups in the creation of a democracy initiative. The AFL-CIO was asked to play a major role in this kind of work, stemming from labor's historical role in assisting democratic unionists in Europe during the period of the Marshall Plan immediately after World War II, and through three regional institutes created subsequently to work in the Third World.

The AFL-CIO's regional institutes, the Asian American Free Labor Institute (AAFLI), the American Institute for Free Labor Development (AIFLD), and the African American Labor Center (AALC) have worked with the Free Trade Union Institute to administer

most of the first two years' of the Endowment's funding. Our experience in this work and the fact that we have an extensive field operation with offices in 40 countries and every region of the world was the reason we were given such a large share of funds in the first place.

We understand that your concerns about press and other criticisms of Endowment sponsored efforts, including some labor programs, are part of what has motivated this committee's examination, and indeed the request for a GAO report itself. We share the view that a clean bill of health on accounting and procedural matters will put all of us in a stronger position to do this work, as well as enable the Subcommittee to defend this program with confidence.

There is much all of us have learned as a result of the recent audit conducted by the General Accounting Office. We have found the GAO audit to be fundamentally fair and objective, although we do have specific comments on some of its points as indicated in the Appendix to this testimony. We are also pleased that none of its findings point to any "horror stories", to use the words of the GAO itself, and none reveal any but the routine start-up problems that might be associated with any new program. That the GAO has made no recommendation for changes in the authorizing legislation that would alter the Endowment's ability to manage its own affairs would seem to confirm such an assessment of its conclusions.

As important as form and procedure are however, we hope discussion of them can at some point be tied to the political content of what the Endowment has been able to accomplish up until now. Already, we feel that, basic understandings about the relationship of the Endowment's structure to its long term political effectiveness are being overlooked. Before presenting Labor's views on this relationship and the policy issues that emerge from it, I must also say, on behalf of the largest and acknowledgedly most experienced entity associated with the Endowment, and the recipient of most of its money thus far, I hope you will give the appropriate consideration to this written statement.

There are three policy areas to which we would like to draw your attention, and which we hope the subcommittee will address: 1) The consequences for labor and the Endowment of the 25 percent limitation on funding to any single grantee; 2) The role of labor as a core grantee in relation to the Endowment's image and effectiveness; 3) Support for "sensitive" and/or "controversial" projects.

I would like to make a few general observations first that shape our views on all these questions.

From where labor sits, the most basic misunderstanding associated with this entire effort thus far, is the fact that few appreciate the predicaments of those we are trying to help, who struggle in circumstances where democracy is threatened or nonexistent.

An understandable irony associated with this problem is the tendency of some members of this wonderfully open and democratic body, the United States Congress, to assume that all its deliberations and information-seeking and record-making, because they are what make our system great, can likewise only be good for democratic advocates, often working in fear of political harassment, jailing and even death. Yet the truth is that these brave people will not always benefit from extensive public discussion of their plight and how they are trying to deal with it. Their circumstances are usually painfully different from this open arena within which we talk about and even influence their futures. Their ideal does not yet approximate our reality. Further, it may hurt them for us to pretend that it does.

Efforts by these democracy advocates to get this point across to the Endowment and its audience through us, while they initially succeeded with the Endowment, have largely failed with respect to the media or the Congress. For example, labor designed its initial system of proposals and reporting to NED -- an open but admittedly general and undetailed system -- because of what those democratic labor leaders we have known for years have told us about what will best enable them to fight for a democratic alternative. They are the ones who wanted a loose and more vaguely defined set up because of what they know the struggle for democracy to be all about. We have been trying to meet their needs.

At the same time, both we and they want an open program. Those who accept Endowment funds through us gain strength when their enemies know they have American allies willing to help. But we believe it is a mistake to present these enemies with the step-by-step strategies of our friends. So, when you note the GAO's approval of the increased written detail now being presented by core grantees and others to the Endowment, and when you contemplate legislative pressure for more publicity for recipients of Endowment funds, whether in Europe, Africa, Latin America, and Asia, we hope you will keep these observations in mind.

I. Labor and the 25 Percent Funding Limitation

There is at least one specific issue raised in the GAO report, but not really addressed there, that bears amplification. The Fiscal Year 1986 appropriations bill contains a restriction that prevents any single grantee from getting more than 25% of the Endowment's funds. Labor was the only grantee affected by this restriction. As a result, our budget was cut from \$13.8 million to \$4.3 million in a single year, thus requiring a drastic slashing of programs and reallocation of funds. No other Endowment program suffered such a cut. In fact, the Endowment is now looking for new programs to fund even as the desperate unions we work with in Chile and the Philippines are closing offices and laying off staff.

Labor never intended to ask the Endowment this year for the proportion of funds it received in the first two years of this program, but we never dreamed we would be cut to one-third of our previous year's budget. The serious administrative problems this cut created for us are never really acknowledged in the GAO report. The GAO simply says that the Endowment will have to gear up to fill the administrative gaps now left by the diminution of "the relatively experienced labor sector." More important is the fact that the political consequences have not been addressed. While it is not the GAO's responsibility to do so, we believe this committee should know about these consequences.

We in labor want to do our best to maintain commitments already made to democratic trade unionists, many of whom have put their lives on the line. At this hopeful moment in the Philippines, for example, the largest NED-funded program of any kind, a labor program, has been cut by more than half. Since it began, 26 leaders have been killed by either the Communist New People's Army or Marcos military forces. That union is now out on a limb -- out there because NED funds enabled it to become quite active in the recent restoration of electoral government -- now we are letting it down. Our latest reports are that the Communist-dominated unions are now gaining ground against our democratic friends in the Philippines. These consequences of the mandated cut of labor's budget are being repeated in smaller degrees, in many other countries. What we in labor are now

forced to explain is the lack of constancy in America's resolve to help these democratic union leaders.

All the arguments made in the earlier debate over earmarks, namely that the Board should be able to judge programs on their merits alone, were somehow overlooked when this cap was put in place. We would argue that if there are to be no positive earmarks there should be no negative earmarks either.

II. Labor As a Core Grantee

It must be pointed out that it is American labor that trade union democrats around the world prefer to explain their circumstances to and seek help from -- not the Endowment, not the U.S. Embassy in their country, not the State Department, not a Congressional committee. As committed to democracy and pro-American as these friends of ours are, they are also disinclined to deal directly with all these other entities.

This is why our autonomy and identity within the Endowment family is important to the Endowment's effectiveness. This is also why the Endowment was designed initially so that what the GAO calls its "core grantees" would play the predominant role in handling most of the money (". . . the Endowment relied on its major grantees to select, monitor and evaluate their own projects," says the GAO report).

The Endowment was set up by these representative institutions because their counterparts in other countries were more likely to trust them and welcome their assistance, than the

U.S. Government. The Endowment was seen by these groups as an umbrella within which they could operate with relative independence. They could maintain their own separate identities, along with the credibility and representative legitimacy that having such independence contributed to their work. The Endowment was also regarded as a forum where those whose responsibility it is to make democracy work here, as private groups who influence the decisions of government, could convene to plan cooperative strategies to help their counterparts in places like Chile, Poland, the Philippines, South Africa, Haiti and Nicaragua. There was a reason for this that goes to the heart of whether or not this program will work.

Yet some have argued that these representative institutions which were instrumental in creating the Endowment in the first place -- labor, business, and the two political parties -- be removed from the Endowment's Board because somehow their presence on the Board boils down to a "conflict of interest." There is more to note here than that the GAO did not have this concern. These are the very groups that give depth and meaning to the Endowment, as representatives of the American private sector.

Congress might also ask, if the leaders of these groups do not sit around the Endowment's decision-making table, who will? Why? What answer to a conflict of interest charge that even the GAO fails to take seriously will substitute for the involvement of American democracy's major private guarantors in the process of its invited exportation? Given the concerns, trusts and

political differences and identities of the parties, unions and businesses in other countries, would an Endowment in which these American groups are weakened be better able to promote democracy than the one originally envisaged in which they would be the leaders?

Some would find it easier, to be sure, to have an Endowment Board on which only individuals, not groups, sit; evaluations where only the Endowment evaluates; detailed information which the Endowment standardizes across group lines and which muddies the circumstantial complexity of individual countries and the political differences in style, substance and purpose that representative entities in pluralistic societies like our own fight to maintain. Luckily this has not happened yet.

I urge this committee to consider whether such an Endowment would be the best Endowment to promote democracy and representative pluralism around the world. How would it then differ from the government agencies it was supposed to distinguish itself from?

We would hope that the U.S. Congress will not, because of its familiarity and relative comfort in dealing with government agencies, turn the Endowment into one. Already the Endowment is the only private entity of which we are aware, subject to the Freedom of Information Act. Already its reporting requirements are more stringent than those of government agencies we have worked with. Already the core groups are more accountable to the Endowment's Board for their programs than they used to be.

We also urge this committee's individual members to note carefully that the GAO made observations about the Endowment's changed responsibilities in terms of legislated changes already instituted. It did not laud those changes, nor did it recommend more. In testimony before this Subcommittee, for example, a representative of the GAO said that self-evaluation by core grantees was an acceptable evaluative method. It pointed to the value of having experienced people on the Board of the Endowment. It suggested that the Endowment's legislation stay the way it is for the immediate future.

III. Sensitive or Controversial Projects

This issue of "sensitive" projects, the special treatment they may require, and the controversy they may therefore create deserves special attention here beyond what the GAO has already said. Some may argue that it is dangerous or inappropriate for the Endowment to give funds to American groups who have partisan agendas in this country apart from the work they do using Endowment funds to help democratic groups abroad. Such observers may go further one day and argue that the groups abroad should not get funding if they have strongly partisan concerns.

If this kind of thinking gets a grip on the Endowment's future much should be said then about how little we understand democracy. It is precisely those private groups who have political goals, who have enlivened and expanded the democratic process in the U.S., and their associates abroad, who will be the

leaders in the fight to expand democracy and the bulwarks against its destruction. It is the independent and democratic labor unions, who want to make their views known on any subject of public policy they might choose, who can best promote the democratic principle of freedom of association. Does anyone expect the AFL-CIO to temper its view on sanctions against Polish repression, or change its position on land reform in El Salvador, or alter its stand on trade arrangements with Chile simply because its Free Trade Union Institute gets a grant from the National Endowment for Democracy? Further, it is precisely the unions in these same countries that we should be helping when their opponents or governments attack them for taking strong democratic stands. Should our fear of controversy lead us to decline support to the very groups who are the ones most likely to exercise democratic freedoms once they are granted?

IV. Conclusion

Contained within the very fact of these hearings is the unstated hypothesis that controversy creates Congressional disquiet and that improved procedures and an Endowment with more centralized authority will diminish both. This hypothesis will become a self-fulfilling prophecy if programs that create controversy are never funded because the Endowment, in response to government pressure, is in a position of more control to decide against them. At the same time, even though the GAO report makes no specific criticism of any particular program,

controversial or otherwise, it implies that the Endowment will have more superior wisdom in judging program quality than core grantees have had in the past.

These conclusions, implied and otherwise, betray the original concept of the Endowment as an organization that would enable the major private interest groups in American political life -- the two political parties, labor and business -- to conduct an expanded agenda of international activities largely in terms of their own identities. The GAO report never deals with the merits of this original concept except to note that it is changing. Certainly movement away from this idea will diminish controversy and expand both Endowment and government control. And, while it may be an unpopular view we are expressing here, we must say that we think that such movement is bad for the democratic cause abroad. Defending democracy effectively through the private sector necessitates risk, controversy and distance from government.

We would hope you will consider all the observations we have made in this testimony in terms of our single most important guiding principle in this work and it is a profoundly democratic one. For us it is America's private democratic friends -- their circumstances, their private identities and our relationships with them -- who should be the central consideration in how the future functioning of the Endowment is shaped. We believe that American labor's relationships, its distinctly non-governmental views, its private character, its experience, its commitment to

democracy and even its partisanship are fundamental to the Endowment's future success because it is these characteristics that are the reason our help was sought by democrats abroad in the first place.

We are grateful for your willingness to entertain our views.

APPENDIXNOTES ON THE GAO REPORT

Below are basic points on the recent draft GAO report, Promoting Democracy Overseas, The National Endowment for Democracy's Management of Grants.

- * Controversial Activities: Two FTUI programs are cited here as evidence of controversy, though others administered directly by the Endowment raised questions as well. The charges are presented in the report, but not the answers. No one has ever demonstrated, for example, that any funds ever went to a political candidate in Panama, nor has the U.S. embassy in Panama, which originally raised concern about FTUI's program there, subsequently disputed our claim.
- * Compliance with Endowment Guidelines: There is considerable discussion suggesting insufficient detail in core grantee project proposals. What is not said is that what the Free Trade Union Institute provided was consistent with Endowment policy at the time. Those policies began to change once the Endowment's Fiscal Year 1986 reauthorizing consideration was underway.
- * Shift in Use of Funds: No attention whatsoever is directed at the disruptive and counterproductive impact (including the affect on planning and reporting) of a cut from \$13.8 to \$4.3 million in a single fiscal year. Real impact is minimized in the main body of the report by the use of percentage terms. The effect of this cut on the ability to evaluate, and even its relevance, are likewise mentioned nowhere.
- * Quarterly Reports: There is no real acknowledgement of the start-up problems of the Endowment in terms of funds disbursement and the need to put systems in place over time. Putting staff and procedures in place at the outset was a problem, even for the Free Trade Union Institute. In the Endowment's first year no funds were disbursed until April 1984, the seventh month of the fiscal year.

The lateness of FTUI reports is exaggerated. It takes at least two and half months from the time money goes to the field until receipting and other report data are received. This can overlap with the Endowment quarterly report schedule in such a way that data does not reach the Endowment until 4 or 5 months after money has been disbursed, even when reports are submitted on time. The fact that the Endowment's reporting

requirements exceed those of the Agency for International Development, another government agency with which we work is never mentioned.

- * Evaluation: FTUI and its subgrantees did have evaluation mechanisms in place based on Agency for International Development precedents. What FTUI added later was the goal of standardizing these into a comprehensive whole. Evaluations on all FTUI FY '84 and FY '85 projects have now been submitted to the Endowment.

The question of how competent the Endowment is to evaluate the programs of core grantees is never discussed. Currently, for example, there is no one on the Endowment's permanent staff who has ever been directly responsible for labor union work.

- * Endowment Control: The GAO's conclusion endorses the Endowment's movement in a direction of more control without saying why this is either necessary or good in relation to the Endowment's legislated purposes. Removal of the legislated earmarks for business and labor is the only Congressional decision relating to this direction.

- * Labor Operation (Appendix): More could be said about the comparative merits of the labor field apparatus now present in 40 countries for the whole range of issues of concern: planning, reporting, evaluation, monitoring, etc.

Mr. MICA. Thank you. I would suggest that you just remain at the witness table and we will call our next witness: Mr. John Sullivan, Director of Republican Congressional Affairs, Center for International Private Enterprise.

I might just add that we won't get into questions now, but my own feeling is that to even consider changing the 25 percent limitation, to me, would essentially mean the death knell for NED. I think the boat was definitely sinking and that one of the things that bailed out NED was these regulations, the oversight, and the requirement, the cap. To try to reverse that at this stage would probably put us back into a situation of a boat with a big hole in it, and I don't know if we could save it.

We will get into questions in a few minutes. But the political atmosphere in this country is far different than it was just a few years ago, let alone when NED was envisioned. I don't think there is any turning back now. Maybe 8 years from now or 4 years from now, but not right now. That is my own feeling.

Mr. Sullivan?

STATEMENT OF JOHN SULLIVAN, DIRECTOR, PUBLIC AND CONGRESSIONAL AFFAIRS, CENTER FOR INTERNATIONAL PRIVATE ENTERPRISE, ON BEHALF OF WILLIAM T. ARCHEY, VICE PRESIDENT, CENTER FOR INTERNATIONAL PRIVATE ENTERPRISE, CHAMBER OF COMMERCE OF THE UNITED STATES

Mr. SULLIVAN. Thank you, sir.

Mr. Chairman and members of the subcommittee: I am here representing William T. Archey, vice president, International of the U.S. Chamber, and vice president of the Center for International Private Enterprise. Unfortunately, Mr. Archey couldn't be with us today since he had to attend the U.S. Chamber's Board meeting, but he did ask me to extend his regrets to you and to the other members of the subcommittee, and to thank you for your continuing support and interest in what we regard as an extremely important program.

Mr. MICA. Tell Mr. Archey that we understand that he feels that the U.S. Chamber's Board meeting is more important than his appearance here—we get the message. [Laughter.] Go right ahead.

Mr. SULLIVAN. As you indicated earlier, I will simply summarize our statement.

CIPE's overall purpose is to encourage the growth of private enterprise principles and organizations that contribute to democratic development. Democracy requires the development of institutions based on individual freedom, initiative, incentive, opportunity, responsibility, and voluntary association. Private enterprise systems both benefit from and provide support for these same values. By building up business organizations committed to these values, CIPE plays a key role in encouraging and sustaining democratic transitions.

President Reagan recently made a major policy address at the U.S. Chamber before our International Forum. His message was one that inspires us here today. In his speech, the President spoke of "the winds of freedom." He said:

Those winds are blowing in Latin America where, in recent years, we have witnessed one of the greatest expansions of democracy in history. Today, 90 percent of the population of this Hemisphere lives in democratic countries or countries in transition to democracy.

The President also spoke eloquently about the fact that countries all over the world are turning their backs on "statism" and looking toward private initiative as a new model for economic growth. Promising signs are now being seen in Africa and elsewhere that governments are beginning to free their economies by deregulating and supporting the spread of private business.

The President's speech echoes our own enthusiasm, as well as the substance of the CIPE mandate. We intend to build on these encouraging developments, particularly in Latin America and Africa and in countries like the Philippines where the "winds of freedom" are blowing strong.

Given our 2 years of experience, we have just completed a statement of our program strategy. Several key perceptions guided this development. In many countries, conditions are unfavorable and CIPE programs wouldn't be productive. In other countries, for CIPE to even attempt to implement programs would be clearly counterproductive.

We will concentrate our very limited resources on countries where the political situation is conducive to democratic development. In some cases where longer term success seems likely, CIPE may develop some small-scale projects to lay the foundation for a more ambitious effort when conditions become favorable. These types of venture projects will enhance our ultimate success.

In developing the strategy for each region of the world, we have used basic criteria to group countries that represent varying degrees of potential for project development. In general we looked at whether a country showed at least some characteristics of political democracy, whether the economic base was sufficient to support a private sector business community, and whether the Government was inclined toward or at least tolerant of pragmatic economic policies and private sector growth.

In each region we looked at the general economic and political history and the current state of private enterprise. Based on each region's overall potential, we have given priority to working in Latin America and Africa. Substantially fewer site projects will be developed in Asia and the Middle East. Countries like the Philippines, of course, will continue to be treated as a high priority.

I would just like to mention a few examples of some of the programs and the experience we have gained that led us to this kind of a strategy.

In the Philippines, the Philippine Chamber of Commerce and Industry has received a major grant from CIPE for a three-part project aimed at making a contribution to the restoration of democracy by building a private enterprise system in place of "crony capitalism," as they use the term.

The Institute for Liberty and Democracy in Lima, Peru is using our funds to advocate economic deregulation and greater accountability of the Government to the general public and to the private sector.

In 1985, CIPE assistance enabled the Center for Studies in Economics and Education in Monterey, Mexico to train 39 journalists in economics and to prepare opinion-page editorials on economic issues to reach a combined daily readership of more than 3 million Mexicans.

Also in Mexico, we have made a grant to the Mexican Employer's Confederation to implement an economic education program in the nation's vocational schools.

Finally, we have established a Journal of Economic Growth, which is issued quarterly in both English and Spanish. It is circulated to business people, journalists, governmental and political leaders, and others throughout the world.

Through the Journal we have created a vehicle for exchanging views between people in the developed and developing worlds—a dialog on economic growth.

We did this because we feel that the message of democracy and private enterprise does always get very good press, or very good coverage, in quite a few countries.

We have produced a number of success stories and we could go on about these. But I do want to be frank with you, Mr. Chairman, a few of our projects have not been as effective as we planned. I think when we all began this we realized that much of this kind of work is experimental, it is new, it is a new effort for the business community.

We have learned some valuable lessons as a result of these experiences. Mr. Archey's statement covers those so I won't repeat them here.

We feel that CIPE can contribute substantially to the goal of building democracy. We can and shall work with other organizations—the organizations represented in the NED, as well as groups like the U.S. Agency for International Development. Indeed, we have done this already in Peru where the Institute for Liberty and Democracy Program I mentioned received its research funds from AID and its Advocacy Program was funded by CIPE.

On balance, we have learned a great deal. Some of that knowledge has come from the mistakes we have made; much of it has come from the successes we have accomplished.

We thank you again for the opportunity to be here and would be happy to answer any questions.

[The prepared statement of Mr. Archey follows:]

PREPARED STATEMENT OF WILLIAM T. ARCHY, VICE PRESIDENT, CIPE

Mr. Chairman and members of the subcommittee, I am William T. Archey, Vice President, International, U. S. Chamber of Commerce, and Vice President of the Center for International Private Enterprise (CIPE).

CIPE's overall purpose is to encourage the growth of private enterprise principles and organizations that contribute to democratic development. Democracy requires the development of institutions based on individual freedom, incentive, initiative, opportunity, responsibility, and voluntary association. Private enterprise systems both benefit from and provide support for these same values. By building business organizations committed to the values of private enterprise and democracy, CIPE plays a key role in encouraging and sustaining democratic transitions.

President Reagan recently made a major policy address at the U. S. Chamber of Commerce before the International Forum, over which I preside. His message was one that inspires us here today. In his speech, the President spoke of "the winds of freedom" and noted that:

Those winds are blowing in Latin America where, in recent years, we've witnessed one of the greatest expansions of democracy in history. Today, 90 percent of the population of this hemisphere lives in democratic countries or countries in transition to democracy.

The President also spoke eloquently about the fact that countries all over the world are turning their backs on "statism" and looking toward private initiative as a new model for economic growth. Promising signs now are being seen in Africa and elsewhere that governments are beginning to free their economies by deregulating and supporting the spread of private business.

The President's speech echoes our own enthusiasm, as well as the substance of the CIPE Mandate. CIPE intends to build on these encouraging developments, particularly in Latin America and Africa and in countries like the Philippines where the "winds of freedom" blow strong.

I assumed my duties at the Chamber and CIPE in February of this year. One of my first actions at CIPE was to begin the process of reviewing our experiences and, building on the knowledge that we have gained, to formulate a clearly defined strategy to guide us in the challenging job that we have before us.

Several key perceptions have guided our strategy development. In many countries, conditions are unfavorable, and CIPE programs would not be productive. In other countries, for CIPE even to attempt to implement programs would be clearly counterproductive. CIPE will concentrate its very limited resources on countries where the political situation is conducive to democratic development. In cases where longer-term success seems particularly promising, CIPE may develop small-scale projects with the goal of laying the foundations for more ambitious efforts when conditions are more favorable. These venture projects will enhance the ultimate success of CIPE's efforts.

In developing a CIPE strategy for each region of the world, we have used basic criteria to group countries that represent varying degrees of potential for successful project development and implementation. In general, we looked at whether a country showed at least some characteristics of a political democracy, whether the economic base was sufficient to support a private-sector business community, and whether the government was inclined toward or at least tolerant of pragmatic economic policies and private-sector growth.

In each region, we looked at the general economic and political history and the current state of private enterprise. Based on each region's overall potential for project development, we have given priority to working in Latin America and Africa. Substantially fewer CIPE projects will be developed in Asia and the Middle East.

In Latin America, present economic and political conditions in the region are such that CIPE involvement can make a real difference at a critical time. Many nations are turning to market economics and private enterprise to foster growth. This trend has been accompanied by a movement toward political democracy. While this trend is an inspiring display of the power of the democratic ideal, democracy in Latin America and the Caribbean is still fragile. CIPE's challenge here is to help to build or support broadly representative private sector groups that contribute to these ends and, thus, contribute to the attainment or consolidation of democracy in the region.

In Latin America, CIPE favors working with organizations in those countries that recently have resumed a democratic form of governance, such as Argentina or Brazil. CIPE also recognizes that the future of the private sector and democracy in Latin America rests on the development of the most influential countries, such as Argentina, Brazil, Mexico, Venezuela, and Colombia, where a sustained and multi-pronged effort is necessary to have an effect. Lastly, in the next two years CIPE will be analyzing the Southern Cone where, with the exception of Argentina, little has been done so far. Countries on which CIPE will focus include Uruguay, Paraguay, and Chile.

Africa brims with entrepreneurial energy, but the translation of entrepreneurial energy into sturdy private-sector institutions has been slow and disappointing. The challenge for business communities struggling to survive is enormous, and the problems sometimes overwhelming. CIPE's challenge is to find and use the opportunities that will allow some progress toward establishing a broader role for African business communities in determining the policies and directions of their countries.

Botswana, Cameroon, the Ivory Coast, Kenya, Nigeria, Senegal, and Zimbabwe have been targeted as potential countries for CIPE programs. These

countries possess common characteristics that are conducive to CIPE's goals. These characteristics include the country's regional influence, the presence of established business associations, a government receptive to private enterprise, and demonstrated potential for democratic development.

Also of high priority in Africa are the encouragement and institutionalization of regional and subregional cooperation between business organizations. CIPE will focus on working with principal business organizations in East Africa and Southern Africa where an interest in cooperation between business associations has been expressed.

Despite obstacles created by Asian traditions in business and politics, rapid growth in parts of Asia--growth that often has been related closely to market-oriented economic policies--has opened possibilities for valuable, effective CIPE involvement in several Asian countries. Projects in fragile democracies, such as Thailand, can serve to strengthen and solidify the system. Programs in the Philippines, Korea, and Pakistan can build on the pressure for democratic development created by economic growth and modernization.

Perhaps even more than in Asia, deep-rooted traditions common in North Africa and the Near East are antithetical to the western understanding of the meaning and role of democracy and private enterprise. However, in four countries--Turkey, Egypt, Tunisia, and Jordan--conditions exist that make CIPE involvement possible and conceivably promising.

Program Examples

Over the past two years, CIPE has developed programs that support our mandate to encourage the growth of private enterprise principles and organizations that contribute to democratic development. I now will share with you several of our programs that do just that.

- o The Philippine Chamber of Commerce and Industry received a major grant from CIPE for a three part project aimed at making a major contribution to the restoration of democracy by building private enterprise in place

of "crony capitalism."

- o The Institute for Liberty and Democracy (ILD) of Lima, Peru is using CIPE funds to advocate economic deregulation and greater accountability of the government to the general public and to the private sector for its commercial and business regulations.
- o In 1985, CIPE assistance enabled the Center for Studies in Economics and Education of Monterrey, Mexico to train 39 journalists in economics and prepare opinion-page editorials on open-market economic issues to reach a combined daily readership of more than three million Mexicans.
- o In Mexico, a CIPE grant to the Mexican Employers' Confederation (COPARMEX) supports its effort to teach the EMPRESA course in Mexico's national vocational and technical school system, CONALEP. EMPRESA is a Spanish language education program that teaches the basics of private enterprise.
- o The Journal of Economic Growth, funded by CIPE, is issued quarterly in both English and Spanish and is being circulated to business people, journalists, governmental and political leaders, and others throughout the world. This journal, started because the message of democracy and private enterprise is not receiving very good press in many countries, created a vehicle for exchange of views between people in the developed and developing worlds -- a dialogue on economic growth.

I am very excited about the Journal, given the responses that we already have received. CIPE has produced many success stories, such as those that I have mentioned. However, I shall to be frank with you, Mr. Chairman; a few of our projects have not been effected as we had planned. We have learned some valuable lessons as a result of those experiences. I shall give six examples.

Lessons LearnedLesson #1: Do not mistake a grantee's enthusiasm for competence.

In 1984, we sponsored a conference in Africa due to a private organization's great enthusiasm for private enterprise and the recommendation of the U.S. Ambassador and the Department of State. When repeated requests for information did not produce results, we became very concerned and had to hire a consultant to direct the organization of the conference. We now conduct thorough independent background checks on every potential grantee to ensure that it has the ability to complete the program.

Lesson #2: Do not accept reassurances that "everything is on schedule and doing well" for proper reporting and staff monitoring.

We made a grant to a national Chamber of Commerce in Africa to build membership and services to small rural businesses. The Chamber's program was overly ambitious. If we had conducted a field evaluation at the end of the pilot stage, we would have identified the weaknesses that placed the project in jeopardy. These problems have been resolved as a result of an extended visit from a project advisor. Now full evaluations must be conducted both during and after our major projects to determine if they are accomplishing objectives.

Lesson #3: Differentiate between what an organization wants and what it needs.

COPARMEX, the largest employers' organization in Mexico, came to CIPE with an extensive multi-million dollar proposal. We decided to start with our EMPRESA program. Based on the success with EMPRESA, COPARMEX can progress independently to other projects. We now examine projects to determine if they can be implemented in stages to maximize the chances of success.

Lesson #4: Regional training programs are more effective than U.S.-based ones.

We have learned that training programs for business associations can be operated much better on a regional basis, rather than in the U.S. When

comparing the results of an inexpensive program held in Costa Rica for Latin American business association executives to its counterpart U.S.-based program, we found that the Latin American program was received better, especially because it was held in Spanish and was far more cost effective. CIPE now will focus almost exclusively on the regional approach.

Lesson #5: Business groups, not consultants, must initiate proposals.

Earlier, a consultant approached CIPE with a proposal on behalf of the Private Sector Organization of Jamaica and indicated that the group could have a major impact on the government if it could analyze policy better. As a result of field evaluation, we discovered that the Jamaican group didn't know about the program. We rejected the proposal and adopted a policy that all proposals have to be initiated from a business group itself, not from a third party.

Lesson #6: Wherever possible, CIPE should seek to join with other agencies to have increased impact.

Many agencies and international organizations work in development throughout the world. Given the immense task before CIPE and the relatively small funding available to accomplish it, it would be wise for CIPE to join others of similar interests in a given region. Shared projects can double the resources available to CIPE; thus, CIPE will produce greater results from available funding.

Conclusions

Mr. Chairman and members of the committee, CIPE can contribute substantially to the goal of building democracy. We can and shall work with other development organizations, particularly the U.S. Agency for International Development (AID), to leverage our scarce program dollars. We have done this already in Peru where the Institute for Liberty and Democracy received AID funds for research and CIPE funds for its advocacy program.

We can do much. We already have learned a great deal, and some of that knowledge has come from our mistakes. On balance, I believe that our successes far outweigh our shortfalls. Thank you for your attention.

Mr. MICA. I will continue to withhold questions.

Have you read the GAO report, by the way?

Mr. SULLIVAN. Yes, sir.

Mr. MICA. Because we will ask some questions on that.

Mr. Keith Schuette, the executive director of the National Republican Institute for International Affairs is our next witness. And as the others, you are certainly welcome to summarize your testimony and without objection, your entire testimony will be included in the record. We welcome you.

STATEMENT OF KEITH E. SCHUETTE, EXECUTIVE DIRECTOR, NATIONAL REPUBLICAN INSTITUTE FOR INTERNATIONAL AFFAIRS

Mr. SCHUETTE. Thank you, Mr. Chairman.

Mr. Chairman and members of the subcommittee, on behalf of the board of directors of the National Republican Institute for International Affairs I would like to thank you for the opportunity to appear here this afternoon.

We view the ongoing program of oversight and exchange to be absolutely critical to the future of the Endowment and our institute. We are grateful for the concern and support which this subcommittee has shown.

The Republican Institute has just completed its second year of work as a core grantee of the National Endowment for Democracy. During this period, the Institute has attempted to meet the challenges of conducting sophisticated overseas political development programs while at the same time attempting to establish a record which can convince an admittedly skeptical audience that our work is worthy of the funds that we seek.

As we begin our third year of program activity we believe that substantial progress has been shown on both fronts.

Republican Institute programming begins with the premise that political parties are cornerstone institutions within any democratic system. We see the primary tasks of political parties as three: First, to give order and meaning to political competition within a democratic system; second, to provide opportunities for participation in the political life of a nation; and third, to promulgate and defend the democratic ideal at the grassroots level where such ideals often face their greatest challenges.

We believe the programs which can assist struggling political institutions with these tasks are as essential as any that the Endowment can support. Breakdowns in the political party systems in Colombia in the 1950's, Argentina in the 1960's, and Chile in the 1970's, all of which resulted in the collapse of democratic governance, are clear evidence of the threats posed to democracy by weak and ineffective party systems.

Questions are raised regarding the capability of the two major U.S. parties to assist in the tasks outlined above. We do not delude ourselves by claiming that either the Republican or Democratic Parties have a wealth of experience in the developing world. Indeed, one of the prime objectives of the creation of the Endowment was to provide this experience so that the United States

might play a more comprehensive role in assisting the development of democratic institutions.

Our parties are the most stable historic political institutions in the world. And the techniques of communication, organization and participation which we have developed do have a relevance to struggling democratic institutions abroad. Those who would work with us see this value.

In the first year of our existence, the Republican Institute received proposals from overseas political institutions totaling over \$5 million.

Mr. Chairman, perhaps the strongest justification for the expenditures associated with our work is the recognition that others far less friendly to democracy are active daily in the field of political development, particularly within our own hemisphere.

The Grenada documents offer compelling evidence of the financial, ideological, and moral support which the Soviets, Cubans and Libyans have offered to their political allies in this hemisphere. Democratic parties must exercise the same rights to organize and to assist each other.

Last year, during a speech to the International Democrat Union in Washington, Prime Minister Manuel Esquivel of Belize stated the case on behalf of the developing democratic world, and I quote:

It is therefore perhaps amazing that those who reject democracy and those who remain in power by repression of freedom, or even by the use of a gun, have for many decades seen the necessity in value of banning together throughout the world in mutual support. Those of us who try to preserve that most fragile of governmental systems which we call democracy have for so long pretended that we could continue to preserve and enhance democracy by each going his own way and each attempting to paddle his canoe upstream.

Mr. Chairman, in my prepared statement I have included a list of NRIIA programs. I would like to close with some very brief comments on some of our specific work and where we expect to apply resources should the Congress determine to support our work.

In advance of the 1985 national elections in Guatemala, the Republic Institute designed and conducted the first national poll in the history of Guatemala focusing in particular on the 65 percent of the population which lives in the rural areas.

The Institute is continuing its support for the new national party of Grenada, as that island nation seeks to consolidate its democratic system.

In Colombia, we have helped with a year-long study of voting patterns and to fashion a door-to-door voter education program to address Colombia's chronic voter abstention problems.

In the South Pacific, the institute will support efforts to identify and assist emerging democratic institutions in the independent island states of the region.

We will continue to support the activities of the International Democratic Union and its regional affiliates which bring together nearly 40 of the world's leading moderate and conservative political parties into the largest of the world's political internationals.

Finally, as has been mentioned previously, the institute was very proud to join with our colleagues in the Democratic Institute in sponsoring the international observer mission to the Philippine elections.

We believe that our programs and those of our friends in the National Democratic Institute are central to the success of the Endowment's mission. Ours are of the smallest shares of the Endowment's core grantees and we accept this as a sign that we are new to this work and have a great deal to learn.

We have struggled for 2 years under very difficult conditions, including the complete cutoff of fiscal year 1985 funds, to prove ourselves worthy of the modest support which we seek. We are grateful for the support of this subcommittee in that process and look forward to working with you closely in the future.

Thank you.

[The prepared statement of Mr. Schuette follows:]

PREPARED STATEMENT OF KEITH E. SCHUETTE, EXECUTIVE DIRECTOR, NATIONAL
REPUBLICAN INSTITUTE FOR INTERNATIONAL AFFAIRS

MR. CHAIRMAN, ON BEHALF OF THE BOARD OF DIRECTORS OF THE NATIONAL REPUBLICAN INSTITUTE FOR INTERNATIONAL AFFAIRS I WOULD LIKE TO THANK YOU AND THE SUBCOMMITTEE FOR INVITING ME TO APPEAR THIS AFTERNOON. WE VIEW THE ONGOING PROCESS OF OVERSIGHT AND EXCHANGE TO BE ABSOLUTELY CRITICAL TO THE FUTURE OF THE ENDOWMENT AND OUR INSTITUTE, AND WE ARE GRATEFUL FOR THE CONCERN AND SUPPORT WHICH THIS SUBCOMMITTEE HAS SHOWN.

THE REPUBLICAN INSTITUTE HAS JUST COMPLETED ITS SECOND FULL YEAR OF WORK AS A CORE GRANTEE OF THE NATIONAL ENDOWMENT FOR DEMOCRACY. DURING THIS PERIOD THE INSTITUTE HAS ATTEMPTED TO MEET THE CHALLENGES OF CONDUCTING SOPHISTICATED OVERSEAS POLITICAL DEVELOPMENT PROGRAMS, WHILE AT THE SAME TIME ATTEMPTING TO ESTABLISH A RECORD WHICH CAN CONVINCE AN ADMITTEDLY SKEPTICAL AUDIENCE THAT OUR WORK IS WORTHY OF THE FUNDS WE SEEK. AS WE BEGIN OUR THIRD YEAR OF PROGRAM ACTIVITY, WE BELIEVE THAT SUBSTANTIAL PROGRESS HAS BEEN SHOWN ON BOTH FRONTS.

MR. CHAIRMAN, REPUBLICAN INSTITUTE PROGRAMMING BEGINS WITH THE PREMISE THAT POLITICAL PARTIES ARE CORNERSTONE INSTITUTIONS WITHIN ANY DEMOCRATIC SYSTEM. WE SEE THE PRIMARY TASKS OF POLITICAL PARTIES AS THREE:

FIRST, TO GIVE ORDER AND MEANING TO POLITICAL COMPETITION WITHIN A DEMOCRATIC SYSTEM;

SECOND, TO PROVIDE OPPORTUNITIES FOR PARTICIPATION IN THE POLITICAL LIFE OF A NATION; AND

THIRD, TO PROMULGATE AND DEFEND THE DEMOCRATIC IDEAL AT THE GRASS-ROOTS LEVEL, WHERE SUCH IDEALS OFTEN FACE THEIR GREATEST CHALLENGES.

WE BELIEVE THAT PROGRAMS WHICH CAN ASSIST STRUGGLING POLITICAL INSTITUTIONS WITH THESE TASKS ARE AS ESSENTIAL AS ANY THAT THE ENDOWMENT CAN SUPPORT. BREAKDOWNS IN THE POLITICAL PARTY SYSTEMS IN COLOMBIA IN THE 1950'S, ARGENTINA IN THE 60'S, AND CHILE IN THE 70'S -- ALL OF WHICH RESULTED IN THE COLLAPSE OF DEMOCRATIC GOVERNANCE -- ARE CLEAR EVIDENCE OF THE THREATS POSED TO DEMOCRACY BY WEAK AND INEFFECTIVE PARTY SYSTEMS.