

# CRS Report for Congress

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## National Endowment for Democracy: Policy and Funding Issues

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### Summary

The National Endowment for Democracy (NED), a private, nonprofit organization established during the Reagan Administration, provides grants to private organizations to promote democracy in more than 90 countries around the world. Throughout its 16-year history, NED's budget has ranged from a low of \$15 million in FY1987 and FY1989 to a high of \$35 million in FY1994. During the 1990s, NED has come under attack from a few Members of Congress for several reasons: its cost; its distribution of noncompetitive grants to four core political, business, and labor grantees; its reliance on government rather than private funding; and its possible duplication with other U.S. government programs.

The President's FY2000 request for NED is \$32 million. The House version of the Commerce, Justice, State (CJS) appropriations bill (H.R. 2670) recommends \$31 million for NED's FY2000 budget; the Senate Appropriation Committee recommended no government funding for NED in its version of the CJS FY2000 appropriation bill (S. 1217). Senate floor action on this issue later restored NED funding to \$30 million by reducing that amount from the State Department technology account. Opponents are likely to continue to raise debate on federal versus private funding for NED. This report will be updated as legislation occurs.

### Background

In the late 1970s, West European governments had begun to offer assistance to foreign fraternal, political, and social institutions to bring about peaceful and democratic progress. At the same time, a number of executive officials in the Reagan Administration, Members of Congress from both parties, and private citizens began to explore the idea that the United States should do more to promote democracy abroad and, in particular, to assist private groups for this purpose. In March 1983, the Reagan Administration requested \$65 million for a program, "Project Democracy," which would have sought matching public and private funds to support democratic institutions abroad. Congress did

not pass this legislation, but it did pass other legislation which included the National Endowment for Democracy Act--Title V of the State Department Authorization Act, FY1984 and FY1985 (P.L. 98-164, signed Nov. 22, 1983). Unlike the Project Democracy proposal, NED legislation did not require matching public and private funds.

The National Endowment for Democracy Act recognized the existence of the National Endowment for Democracy (NED) as a private, nonprofit corporation whose purpose was to encourage the development and expansion of free and democratic institutions in other countries through private sector initiatives, especially through the two major American political parties, labor, and business groups.

NED does not conduct democracy promotion programs itself, but provides grants to four core groups and other private organizations for a wide range of NED-approved activities in many different countries. The four core groups receiving grants are the American Center for International Labor Solidarity affiliated with the AFL-CIO (ACILS), the Center for International Private Enterprise affiliated with the U.S. Chamber of Commerce (CIPE), the International Republican Institute (IRI), and the National Democratic Institute of International Affairs (NDI). All of the institutes were established in 1983 in connection with the founding of NED except the American Council for International Labor Solidarity, an organization created in 1997 from a merger of the Free Trade Union Institute and three other AFL-CIO regional labor institutes. Small direct grants are also made to democratic activist groups in Africa, Asia, the Middle East, Eastern Europe, the former Soviet Union, and Latin America. The Endowment made 265 grants to these groups in 1998; an additional 120 grants were made by the four core groups. All NED grants are reviewed and approved or rejected on a case-by case-basis by the NED board.

NED-funded projects are varied, but often have one unifying characteristic: their ability to function and implement democracy programs because they are **not** part of the U.S. government. For example, NED has supported numerous democracy and human rights initiatives in China, Cuba, Burma, Iraq, North Korea and Sudan--countries where the U.S. government is banned by law from providing direct foreign aid. The recent conflict in the Balkans demonstrates various types of NED-supported activities. In FY1998 NED funded independent news organizations in Serbia such as the Association for Independent Electronic Media and BETA, which provide alternative sources of news from that of the government controlled media. In the states of the Former Republic of Yugoslavia, the NED has funded human rights monitoring groups, policy forums and centers that promote the development of civil society. The independent daily *Koha Ditore* in Prishtina, which has been publishing in Macedonia since the Serbian invasion of Kosovo, is also a NED grant recipient. Since the Serbian withdrawal, it has distributed 3,000 newspapers a day in the Kosovo capital.<sup>1</sup>

NED is located in Washington, D.C. NED staff size, which is not limited by law or regulation, has grown from 19 in 1986 to 56 in 1999. Additional accounting and auditing staff were added following a 1991 GAO audit, which expressed the need to increase monitoring of grantees. NED's Board of Directors has ranged between 13 and 25

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<sup>1</sup> Conversation with Paul McCarthy, NED program officer for Central and Eastern Europe, June 17, 1999.

members, with 19 Directors in FY1999. Officers of the Board are elected annually, and they, in turn, elect the President. Carl Gershman has been President since NED's inception and former Representative John Brademas is Chairman of the Board of Directors.

## Funding History and Resource Allocations

Although the National Endowment for Democracy Act specifies that NED should operate as a private organization, it calls for USIA to make an annual grant to the Endowment from funds specifically appropriated for that purpose or from USIA's own "Salaries and Expenses" account. **Table 1** shows U.S. government appropriations for NED.

**Table 1. NED Appropriations, FY1984 - FY1998**  
(\$ million)

FY1984--\$18.0	FY1989--\$15.8	FY1995--\$34.0
FY1985--\$18.5	FY1990--\$17.0	FY1996--\$30.0
FY1986--\$18.0	FY1991--\$25.0	FY1997--\$30.0
FY1987--\$15.0	FY1992--\$27.5	FY1998--\$30.0
FY1988--\$16.9	FY1993--\$30.0	FY1999--\$31.0
	FY1994--\$35.0	FY2000 (req.)--\$32.0

The four core grantees receive grants from NED as projects are submitted and approved, not a lump-sum allocation, as some believe. In FY1996, the Senate Appropriations Committee proposed that the four grantees receive equal funding from NED totaling no less than 55% of NED's total appropriation.<sup>2</sup> Although this proposal was not enacted, this funding approach has been informally adopted by NED. Remaining monies are called discretionary funds and are allocated to numerous other small organizations. **Table 2** shows NED allocations for recent years.

**Table 2. NED Fund Allocations, FY1993-FY1999**  
(\$ million)

Grantee	FY1993	FY1994	FY1995	FY1996	FY1997	FY1998	FY1999
<b>CIPE</b>	4.152	4.152	4.028	4.125	4.125	4.125	4.2625
<b>FTUI</b>	8.973	8.973	8.704	4.125	4.125	4.125	4.2625
<b>IRI</b>	3.401	3.401	3.299	4.125	4.125	4.125	4.2625
<b>NDI</b>	3.401	3.401	3.299	4.125	4.125	4.125	4.2625
<b>Discretionary</b>	6.642	10.639	9.942	9.000	8.900	8.900	8.6800

Institutes must submit proposals (with budget information) for review by the NED Board throughout the year.

**Source:** National Endowment for Democracy.

<sup>2</sup> Departments of Commerce, Justice, and State, the Judiciary, and Related Agencies Appropriation bill, 1996, S.Rept. 104-139, p. 113, September 12, 1995.

Since 1991, the core grantees also have received funds from USAID. Furthermore, they receive additional contributions from private sources. In FY1998, the four grantees received private resources (contributions of money, volunteer time, computers, etc.) totaling about \$22.4 million.

**Table 3. Core Grantee Total Resources - FY1998**  
(\$ million)

Grantee	NED	USAID	Other Govt.	Private	Total
CIPE	4.6	03.8	0.05	0.04	08.5
ACILS	4.6	17.6	0.60	0.60	23.2
IRI	4.0	06.7	0.20	1.00	11.9
NDI	4.7	23.1	0.00	1.60	29.0

**Source:** NED, CIPE, IRI, and NDI.

## Current Issues

Although the possible elimination by Congress of NED funding is an ongoing threat, lawmakers also continue to debate the size, scope and distribution of U.S. democracy promotion efforts. Some foreign policy experts argue that encouraging development of democracies overseas is crucial to America's own national and economic security, and that, while supporting political transition is not costless, it is far cheaper and safer than crisis response. Those who would like to reduce the amount of government expenditures on democracy promotion activities contend that success is difficult, if not impossible, to assess. Because of these differences coupled with the offset requirement for funding new or expanded programs, the House "zeroed out" NED's budget during the FY1994 funding debate, but the Senate and conferees subsequently restored it. In 1995, NED opponents in the Senate sought to drastically cut or totally eliminate NED funding for FY1996. The Senate Appropriations Committee recommended the elimination of funding in FY1998 and FY2000, but the full Senate subsequently restored funding in both years. The following issues continue to frame the debate over NED funding:

**Core Grantees/Competitive Bidding.** Many critics of NED have expressed concern that four grantees receive the bulk of government funds on a noncompetitive basis. According to Senator Gregg, "[T]he bottom line is this is a relic of the cold war. In a time when we have very limited resources, it is very hard to justify funding the Democratic National Committee, the Republican National Committee, AFL-CIO, and the Chamber of Commerce, all of whom have significantly more resources available to put into this than we have."<sup>3</sup>

Proponents of funding the core grantees contend that political parties, business, and labor are at the heart of a pluralistic, democratic society. They argue that the four organizations' experiences and expertise make them particularly well-equipped to assist emerging democracies in transition from one-party regimes to multi-party governments.

<sup>3</sup> *Congressional Record*, July 22, 1999, p. S9004.

NED responds to these charges by stating that grant proposals are strictly reviewed by financial staff and the bipartisan Board of Directors on a project-by-project basis. Furthermore, the core grantees are covered by stringent reporting and evaluation requirements. NED maintains that coordination with the Department of State and possible audits by the General Accounting Office (GAO) keep the grantees efficient, honest, and in line with U.S. foreign policy objectives.

In June 1999, Senator Feingold introduced an amendment to the foreign relations authorization bill (S. 886) to gradually reduce to zero by FY2004 the percentage of funds set aside for the four core groups. At that time, all grants are to be awarded competitively. Senator Feingold decried the “annual bonanza” received by the four groups and asserted that “these four grantees know the fix is in, so there is less incentive to make sure every single program is as efficient and as well planned as it possibly can be.”<sup>4</sup> Senator Lugar and others opposed the Feingold amendment by defending the funding levels as “checks and balances” that insure that NED is not politicized.<sup>5</sup> The amendment was defeated by a vote of 76 to 23.<sup>6</sup>

**Government versus Private Funding of NED.** Policymakers who oppose government grants to NED have claimed that when the organization first was established, the intention was that NED eventually would rely on private funding. Some Members of Congress have asked: if NED gets its funds from the U.S. government, is monitored by government auditors, and must coordinate its activities with the State Department, then, in what way is it private? Conversely, they wonder: if NED is considered a private entity, shouldn't most of its funding be private?

Although NED was originally established as a private entity, private funding was not required. Neither the congressional debate in 1983, nor the National Endowment for Democracy Act requires private source funding. The Foreign Relations Act, FY1992 and FY1993 (P.L. 102-138) did include a sense of Congress provision that “the National Endowment for Democracy should make every effort to solicit private contributions to realize the purposes of the Endowment as set forth in the National Endowment for Democracy Act.” Also, many NED grantees, including the core grantees, typically use NED grants to leverage private contributions.

NED argues that private status/government funding is key to its effectiveness. As a nongovernmental organization (NGO), NED can work in areas of democratic development that are too risky for the U.S. government, in countries where the United States does not have an official assistance program, or with local NGOs where a U.S. government agency does not want overt ties, such as in Cuba and China. A variety of factors restrict direct government support in such circumstances, including foreign policy considerations, statutory prohibitions, and the unwillingness of a given foreign leader to allow assistance. Furthermore, the credibility of democracy promotion projects in the recipient countries often is greater if private rather than government organizations conduct them.

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<sup>4</sup> *Congressional Record*, vol. 145, no. 88, June 21, 1999, p. S7316.

<sup>5</sup> *id.*, p. S7317.

<sup>6</sup> *id.*, p. S7410.

**Duplication.** A number of government and private entities, in addition to NED, carry out democracy promotion activities. Government organizations include USIA, USAID, and the Departments of State, Justice, and Defense. Private organizations promoting democracy include the Asia Foundation, the International Foundation for Electoral Systems (IFES), the Soros Foundation, and the Ford Foundation. In addition, foreign governments such as Canada, Germany and the United Kingdom fund democracy institutes. In FY1997 (the most recent year for available numbers), USAID funds for democracy promotion amounted to \$402 million<sup>7</sup> and USIA democracy promotion funds equaled \$350.5 million. Other democracy programs are funded through the Department of Defense's International Military Education and Training Program (IMET) and the Military to Military Contacts Program (MMCT). The Department of State's democracy promotion activities are primarily through the Economic Support Fund (ESF), a program jointly managed with USAID.

Critics argue that with the myriad governmental, private and overseas democracy programs in place, NED is redundant. Supporters of NED, however, stress NED's strength is its independence from government agencies. Senator Kyl emphasized this point during Senate floor debate, "If NED were to be too closely associated with the Department of State, NED might be seen as merely a mouthpiece for whatever administration currently occupies the White House."<sup>8</sup>

## **Future Prospects**

Although efforts have been made in every Congress to eliminate funding for NED, the program has survived and its funding level has stabilized. Proponents in Congress continue to stress its useful role as a conduit for nongovernmental aid and its ability to respond quickly to changing democracy assistance challenges. Many believe that the prospects for continued funding of NED are good, but issues related to the size and division of grants between the four institutes and outside organizations chosen by NED will continue to attract congressional interest. In addition, NED's independence from the State Department will be closely watched as the upcoming reorganization that abolishes the United States Information Agency is implemented.

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<sup>7</sup> U.S. A.I.D. Budget Office Estimate.

<sup>8</sup> *Congressional Record*, July 22, 1999, p. S9007.

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