

**STATEMENT OF SENATOR CARL LEVIN (D-MICH)
CHAIRMAN
PERMANENT SUBCOMMITTEE ON INVESTIGATIONS**

BEFORE HEARING ON

**UNITED NATIONS DEVELOPMENT PROGRAM:
A CASE STUDY OF NORTH KOREA**

January 24, 2007

In March 2007, the United Nations Development Program (UNDP) took the unprecedented step of suspending its operations in the Democratic People's Republic of Korea (DPRK), commonly known as North Korea. In April, the UNDP withdrew from the country entirely, because North Korea had declined to allow UNDP to impose tighter controls on its activities to increase transparency and accountability. Today's hearing will examine some of the management and operational deficiencies in the UNDP operations in North Korea as well as concerns about a UNDP audit policy so restricted in its dissemination that program oversight was impeded. The Staff Report also reviewed weak whistleblower protections that may discourage UNDP employees from speaking out about problems.

The UN Development Program is one of the world's principal humanitarian agencies. It conducts development work in 166 countries, spending \$5 billion per year of its own funds and managing another \$4 billion or so for other UN entities and donors. UNDP priorities include reducing poverty, dealing with crises like floods and earthquakes, and combating health threats. It operates in some of the world's most challenging countries, working to advance humanitarian aims even under repressive regimes. The UNDP is often walking a tightrope. Often it succeeds.

UNDP activities are in America's national interest. The U.S. Department of State's 2006 Congressional Budget Justification states that "the UNDP's programs are closely aligned with U.S. strategic interests." As we speak, for example, UNDP personnel are risking their lives in support of U.S. reconstruction efforts in Iraq and Afghanistan. They are working on the ground to build better government rule in Sudan, and helping rush aid to flood and landslide victims on the island of Java in Indonesia. To support these and other critical humanitarian efforts, in 2005, the United States contributed over \$240 million to UNDP operations.

Last year, allegations of mismanagement involving UNDP operations in North Korea erupted in the press. Some press accounts reported allegations that the UNDP might have supplied upward of \$100 million in hard currency to the North Korea and that \$2.7 million in UNDP money had been transferred to North Korean embassies abroad, among other allegations. Accusatory letters were exchanged between the United States Mission to the United Nations and UNDP, straining relations between the two.

While some press reports were overblown, UNDP operations in North Korea raise legitimate concerns. It is our hope that this hearing will address the serious and complex issues

involved when important humanitarian work is undermined by local government restrictions, and at what point humanitarian aid – so important to a poor country -- should be abandoned due to an uncooperative and repressive regime.

At Senator Coleman's request last year, the Subcommittee launched this inquiry into UNDP operations in North Korea. Our staffs interviewed people from the State Department, UNDP, other UN offices, GAO, and others. Our staffs reviewed extensive documentation, including reports, correspondence, emails, financial spreadsheets, and bank records.

The Subcommittee also obtained copies of three nonpublic audit reports for the years 1999, 2001, and 2004, which had been prepared for the UNDP on its North Korean operations. These reports were obtained from confidential sources because, under UNDP policy, not even UNDP Executive Board members are entitled to copies of program audits. We also reviewed a 2007 audit report which UNDP commissioned in response to the allegations and released to the public. All four audits provided valuable information, perspective, and context.

In addition, the Subcommittee staff met twice in New York with senior officials from the North Korean Mission to the United Nations and had, frankly, a surprisingly open exchange about the allegations at issue today. In my experience, direct meetings between North Korean and Congressional personnel are rare, and we would like to acknowledge the North Koreans' responses to our inquiries. Their information contributed to our understanding of what transpired.

The information obtained from the Subcommittee investigation, as well as the staff findings and recommendations, are laid out in a Staff Report being released in connection with today's hearing. I will focus here on a few highlights.

First, it is clear that UNDP operations in North Korea did not follow standard UNDP policy and practice, and were undermined by management and operational deficiencies. Many of these deviations from UNDP policy and practice were the result of demands made by the North Korean government. For example, North Korea insisted and, contrary to UNDP policy and practice, UNDP agreed to hire as its local staff only persons selected by the North Korean government. UNDP also agreed to pay their salaries and expenses with convertible currency, such as US Dollars or Euros, rather than use the local currency, which was the non-convertible North Korean Won. Moreover, UNDP made the payments not to the individuals doing the work, but to the North Korean government itself, even after suspecting that the regime, in the words of one UNDP official, was "skimming" money from the payments.

The North Korean government also insisted that UNDP conduct its financial transactions using the North Korean state-owned Foreign Trade Bank, even though UNDP wasn't allowed on the bank premises and was forced to use North Korean personnel to execute the bank paperwork. That arrangement undermined UNDP fiscal control over its funds. Still another problem was that UNDP officials were not allowed to visit local project sites without prior notice to, and in the company of, North Korean officials. Those project visits weren't the independent inspections called for by UNDP policy and practice.

After the US State Department complained to the Executive Board about UNDP practices in North Korea, UNDP attempted to install better safeguards on its program there. These safeguards would have required local payments to be made in the North Korean Won, allowed local staff to be hired directly by UNDP, and given UNDP greater access to inspect project sites. But North Korea declined to accept the new conditions, and UNDP withdrew from the country.

Before that, UNDP had operated for years in North Korea under these and other staffing, fiscal, and administrative constraints. UNDP personnel told the Subcommittee that, despite the constraints, it was able to accomplish important humanitarian aims in its North Korean work. It designed agricultural, health, and economic development projects, and verified that they took place as intended.

When asked about press reports on the transfer of upward of \$100 million in hard currency to North Korea over 10 years, UNDP indicated that figure was impossible since, over the ten years, UNDP's total expenditures in North Korea did not exceed about \$33.5 million. UNDP explained that the \$33.5 million paid for UNDP's own expenses as well as North Korean development costs. UNDP estimated that, of the \$33.5 million spent, only about \$400,000 was transferred to the North Korean government account designated for use on development projects. About \$6 million was spent by the UNDP for local staff salaries, rent, and office costs, again, over 10 years. While the Subcommittee staff was unable to confirm these estimates through its own analysis, since key financial records remained in Pyongyang, a UNDP commissioned audit is now underway to do just that, and there appears to be little reason to believe that the figure of upward of \$100 million that appeared in the press will be sustained.

The UNDP was itself responsible for some of the confusion surrounding its operations in North Korea. When US diplomatic personnel asked about its North Korean operations in 2006, the UNDP initially refused to provide detailed information and denied access to the relevant audit reports. Later, UNDP allowed the United States to see the audit reports but permitted US personnel to review them on a single occasion without allowing copies to be made. This overly restrictive audit policy impedes oversight and encourages inaccuracies.

This Subcommittee obtained copies of the UNDP audit reports and used the information to develop a better understanding of UNDP operations in North Korea. We have seen no reason for the audit reports to have been kept secret. Inaccessible UN audit reports are a perennial sore point that continues to strain US-UN relations and casts suspicion, often needlessly, on UN activities.

UNDP Administrator Kemal Dervis has proposed that the UNDP Executive Board grant access to UNDP audits on a routine basis to UNDP Executive Board members. His proposal has limitations -- it applies only to future audits, allows only in-person reviews, and does not allow photocopies -- but it is a step forward. I urge the UNDP Executive Board to allow unfettered audit access to all UNDP financial and management audits, not only for Board members, but also all UN member states and the public.

Another problem to be examined today involves the UNDP's treatment of the key employee who spoke out about the problems in North Korea, Artjon Shkurtaj, former Operations Manager of the UNDP office in Pyongyang. Mr. Shkurtaj blew the whistle on what he believed

were management and operational deficiencies in North Korea. He reported those problems to his superiors and eventually to Ambassador Wallace at the US Mission to the UN. Rather than support him, UNDP decided not to renew his contract.

Given the pending Independent Investigative Review now examining his case, this is not the occasion to consider all of Mr. Shkurtaaj's allegations or the details of his treatment by UNDP. It is appropriate, however, to express concern about UNDP whistleblower protections in general. After his contract ended, Mr. Shkurtaaj filed a complaint with the recently created UN Ethics Office alleging UNDP retaliation. In an August 2007 letter, the UN Ethics Office wrote that Mr. Shkurtaaj had established "a prima facie case of retaliation," but concluded that the Office lacked jurisdiction to resolve his case. The letter noted that an Ethics Office review would have been in the "best interests of the United Nations," but UNDP had declined the Office's request to voluntarily submit the Shkurtaaj matter for review. Later, UNDP set up an ad hoc review team that is now considering Mr. Shkurtaaj's claim of retaliation.

UNDP's refusal to submit the Shkurtaaj matter to the Ethics Office for review undermined the status and authority of that Office and undermined confidence that UN personnel can blow the whistle on waste, fraud, or abuse without fear of retribution. The Secretary General has since directed all UN agencies to establish their own ethics offices and created an Ethics Committee to encourage UN-wide ethics rules. We will be discussing that effort today. The bottom line, however, is that UNDP's treatment of Mr. Shkurtaaj is the latest blow to UN whistleblower protections, and it doesn't inspire confidence in UNDP's willingness to hear negative reports about its operations.

The UNDP's overly restrictive audit policy and weak whistleblower protections contributed to the concerns about its North Korean operations. UNDP was also the victim of misleading actions by North Korea. The Subcommittee investigation obtained bank records showing, for example, that over a six month period from April to September 2002, North Korea deposited a total of \$2.7 million of its own funds into a bank account that was supposed to be used exclusively for UNDP projects. North Korea then moved its funds from that UNDP-related account to a bank account in Macau in the name of a Chinese company called International Finance and Trade Joint Company, which has acted as a conduit for North Korea. IFTJ transferred the funds it received from North Korea to other accounts around the world controlled by North Korea, each time referencing the UNDP program in the accompanying wire transfers even though the funds had nothing to do with UNDP activity. Why would North Korea deposit its own funds into a bank account that was supposed to only contain UNDP funds?

When asked about these transactions by the Subcommittee, North Korean officials acknowledged the transfers. They said that the 2002 speech by President Bush in which he said North Korea was part of an "axis of evil," raised fears that North Korean accounts would be frozen. North Korean officials told the Subcommittee that the funds they transferred were for operating diplomatic missions in the United States and Europe. They said that the North Korean Ministry of Foreign Affairs used the UNDP-related account as a secure channel for transferring its own funds, apparently because it was less likely to incur international scrutiny and be frozen.

North Korea did not alert UNDP to its actions, and UNDP told the Subcommittee that it had no idea, until shown the bank records by our staff, that North Korea had deposited its own funds into the bank account set up to receive UNDP funds for UNDP development projects. UNDP had no access to the account records, since the account was under the sole control of the North Korean government. UNDP also was surprised to learn that the Foreign Trade Bank had routed some outgoing UNDP funds through the same IFTJ bank account in Macao, and that two UN payments totaling about \$50,000, that had been made by UNDP on behalf of other UN agencies, had gone to an entity that the State Department later linked to North Korea weapons sales. The Staff Report provides greater detail about these incidents and recommends new controls to prevent similar problems in the future, including by enabling UNDP to monitor account activity of any host country account set up to receive UNDP funds.

The UNDP is an important U.S. ally. Its mission coincides with our national interest, as well as our hopes for a more secure and prosperous world. One key question raised by this investigation is whether UNDP operations that help the people living under repressive regimes should always just be ended, as they were in North Korea, when the government bypasses UNDP controls designed to ensure transparency and accountability.

I would like to thank all of the parties for their cooperation with this investigation. UNDP, in particular, patiently answered many Subcommittee inquiries. The Subcommittee fully recognizes the privileges and immunities of the United Nations, and we appreciate the extent of its voluntary cooperation as well as its allowing the UNDP to brief the Subcommittee today.

We live in dangerous times. So many of the threats we face -- terrorism, climate change, infectious disease -- require an international response. The United Nations, including UNDP, is in a position to help confront those threats. But transparency and accountability are essential to ensure their aims are advanced. It's why we need unfettered audit reports, strong whistleblower protections, and the willingness to take a hard look at UN operations worldwide. Again, I commend Senator Coleman for his initiative in this matter and I thank our staff not only for a thorough product, but, as always, for working in a bipartisan way to improve and strengthen the United Nations.

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