

# WebMemo



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## Congress Should Withhold Funds from the U.N. Development Program

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On January 24, the Permanent Subcommittee on Investigations of the U.S. Senate Committee on Homeland Security and Governmental Affairs held a hearing on the activities of the United Nations Development Program (UNDP) in North Korea. A report issued by the subcommittee confirmed findings by prior inquiries and audits that deficiencies in UNDP rules, procedures, and management permitted North Korea to dictate the composition of UNDP staff, access hard currency, and avoid standard monitoring procedures for projects and financial transactions. Also, the report expanded on previous findings by concluding that the North Korean regime used a bank account that was reserved for U.N. activities to secretly transfer funds to North Korean bank accounts in the United States and Europe—and that the regime used UNDP to facilitate payments to a company that has ties to an entity involved in arms dealing. Finally, the report found that “by preventing access to its audits and not submitting to the jurisdiction of the UN Ethics Office, UNDP impeded reasonable oversight and undermined its whistleblower protections.”<sup>1</sup> These problems are serious and should lead Congress to reconsider its willingness to fund UNDP activities absent fundamental improvements in transparency and accountability.

**Money Laundering and Mismanagement.** Over the past year, UNDP activities in North Korea have come under increasing scrutiny. Several inquiries and audits have revealed that UNDP activities in North Korea were conducted in violation of UNDP rules and procedures. Allegations of UNDP mis-

management and violations of standard rules and procedures first arose when Artjon Shkurtaj—the Operations Manager at UNDP in Pyongyang—blew the proverbial whistle on the deficiencies in UNDP’s operations. His actions led the U.S. Mission to the United Nations to request access to UNDP audits and other information related to the organization’s operations in North Korea. UNDP resisted U.S. inquiries, and the dispute eventually was reported in the press. North Korea refused to cooperate with a request from the UNDP Executive Board that it comply with an inquiry into the suspect activities, which ultimately led to the suspension of UNDP activities in North Korea in March 2007.<sup>2</sup>

A U.N. audit later confirmed the information provided by Shkurtaj. It also detailed several examples of UNDP mismanagement, including: the staffing of UNDP’s office with North Korean nationals chosen by the North Korean regime, the “skimming” of the salary payments to those office workers by the North Korean government, and the use of convertible currencies (such as the U.S. dollar and Euro) instead of North Korean currency. All of these activities were in violation of U.N. and UNDP standard operating procedures and basic “best practices.”<sup>3</sup>

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The confirmation of mismanagement did not protect Shkurtaj from retaliation by UNDP, which refused to renew his employment contract. The U.N. Ethics Office determined that Shkurtaj had made a valid case that he had been retaliated against by UNDP.<sup>4</sup> UNDP, however, decided that the Ethics Office had no jurisdiction and declined to have the Ethics Office handle the issue.<sup>5</sup> Shkurtaj's case remains pending before a review panel appointed by UNDP.

The recent Senate report confirms the allegations made by Shkurtaj and the conclusions of the U.N. audit. It also makes several additional and disturbing findings about the relationship between UNDP and North Korea. For example, over a six-month period in 2002, North Korea used a UNDP-related bank account to essentially "launder" \$2.72 million out of the country to fund its interests in the United States and Europe. The North Koreans themselves admitted that these transfers were made through the UNDP account in order to avoid international scrutiny. Even on a good day, it is a difficult task for the U.S. Treasury Department to track North Korean funding of illicit activities. North Korea's use of UNDP bank accounts to conduct international financial transactions makes it even more difficult to "follow the money" out of North Korea. Moreover, since the North Korean regime used its UNDP bank

accounts as a cover to transfer funds on at least one occasion, it is reasonable to believe that it has done so on other occasions.

Most disturbingly, the Senate report reveals that the North Korean regime used UNDP to conduct financial transactions in connection with the regime's arms-trading activities. Specifically, UNDP facilitated the payment of more than \$50,000 to a company in Macau called Zang Lok, which serves as North Korea's financial agent for sales of ballistic missiles, conventional arms, and related goods. Again, if North Korea used UNDP in connection with its arms-dealing activities on one occasion, it is likely that there are other as yet unknown transactions of the same nature.

Considering these practices, UNDP arguments that UNDP funds were not diverted by North Korea are not credible.<sup>6</sup> The opaque nature of North Korean finances and the government's propensity to pool resources from all sources into common accounts makes it very likely that UNDP funds were used in an inappropriate manner.

Unfortunately, the potential for mismanagement of UNDP activities is not unique to North Korea. UNDP operates in many authoritarian states where there is a great incentive to abuse its presence for the benefit of repressive regimes.<sup>7</sup> In Burma, for exam-

1. Staff Report of the Permanent Subcommittee on Investigations, "United Nations Development Program: A Case Study of North Korea," United States Senate Committee on Homeland Security and Governmental Affairs, January 24, 2008, at [http://hsgac.senate.gov/\\_files/012408Report.pdf](http://hsgac.senate.gov/_files/012408Report.pdf).
2. See Nile Gardiner, Ph.D., Brett D. Schaefer, and Steven Groves, "The UNDP North Korea Scandal: How Congress and the Bush Administration Should Respond," Heritage Foundation *WebMemo* No. 1318, January 22, 2007, at [www.heritage.org/Research/InternationalOrganizations/wm1318.cfm](http://www.heritage.org/Research/InternationalOrganizations/wm1318.cfm); and Brett D. Schaefer, "Oppose Handing UNDP Control of U.N. Country Activities," Heritage Foundation *WebMemo* No. 1434, April 26, 2007, at [www.heritage.org/Research/InternationalOrganizations/wm1434.cfm](http://www.heritage.org/Research/InternationalOrganizations/wm1434.cfm).
3. Report of the Board of Auditors on the Special audit requested by the ACABQ into activities of UNDP, UNFPA, UNOPS and UNICEF in the Democratic People's Republic of Korea (DPRK), May 31, 2007, at [www.undp.org/dprk/docs/DPRK-prelimauditreport-20070601.pdf](http://www.undp.org/dprk/docs/DPRK-prelimauditreport-20070601.pdf); and George Russell, "U.N. Auditors Find Development Program Broke Rules in Offering Aid to North Korea," Fox News, June 1, 2007, at [www.foxnews.com/story/0,2933,277172,00.html](http://www.foxnews.com/story/0,2933,277172,00.html).
4. Letter from U.S. Ambassador to the United Nations Mark D. Wallace to Robert Benson, Director of the United Nations Ethics Office, August 21, 2007, at [www.foxnews.com/projects/pdf/attach2\\_LettertoBensonAugust2107.pdf](http://www.foxnews.com/projects/pdf/attach2_LettertoBensonAugust2107.pdf); and Fox News, "U.S. Pressures U.N. for Action on Ethics Case," August 23, 2007, at [www.foxnews.com/story/0,2933,294270,00.html](http://www.foxnews.com/story/0,2933,294270,00.html).
5. See Brett D. Schaefer, "U.N. Secretary-General's Lack of Leadership Undermines Accountability," Heritage Foundation *WebMemo* No. 1611, September 12, 2007, at [www.heritage.org/Research/AsiaandthePacific/wm1611.cfm](http://www.heritage.org/Research/AsiaandthePacific/wm1611.cfm).
6. Warren Hoge, "Senators Criticize U.N. Program in North Korea, but Question Set of Accusations," *The New York Times*, January 25, 2008, at [www.nytimes.com/2008/01/25/washington/25nations.html?\\_r=1&scp=2&sq=warren+hoge&st=nyt&oref=slogin](http://www.nytimes.com/2008/01/25/washington/25nations.html?_r=1&scp=2&sq=warren+hoge&st=nyt&oref=slogin).

ple, the ruling military junta is pressuring U.N. organizations operating there to coordinate their activities with the Union Solidarity Development Association—a political organization sponsored by the regime.<sup>8</sup> UNDP and other U.N. organizations must not allow themselves to be used for such purposes, which undermine their core mission in Burma. It is reasonable to suspect that the operations of UNDP and other U.N. relief organizations operating under the world's most repressive regimes—such as those in power in Zimbabwe, Syria, and elsewhere—are not immune from major governmental interference.

UNDP has demonstrated a stunning arrogance in resisting efforts by U.N. member states to exercise proper and prudent oversight of UNDP activities, projects, and financial transactions. Access to UNDP audits, records, and documents is critical to proper oversight and governance. Congress should be concerned that U.S. taxpayer dollars are going to a program that forbids U.S. government representatives from making sure that those dollars are properly spent.

**Recommendations.** In September 2007, Senator Norm Coleman (R–MN) introduced legislation that would have withheld all U.S. funds from UNDP activities unless it submitted to a robust and centralized ethics program that would include strong protections for whistleblowers.<sup>9</sup> Unfortunately, the recently passed omnibus appropriations bill watered down that amendment and substituted a provision to withhold only 20 percent of U.S. funds appropriated for the UNDP until the Secretary of State reports to Congress that UNDP was “giving adequate access to information to the Department of State regarding UNDP’s programs and activities as requested...conducting oversight of UNDP programs and activities globally; and implementing a whistleblower protection policy equivalent to that

recommended by the United Nations Secretary General on December 3, 2007.”

While these requirements may seem strict at first blush, in fact they were easily met by UNDP and fall far short of what is necessary. In order to ensure the proper operation of UNDP in North Korea and other countries where it operates, the United States should:

- *Withhold all U.S. contributions to UNDP until the organization provides all member states with unfettered access to all information and audits relating to UNDP projects and other activities.* UNDP currently restricts access to its audit reports and other critical information about its projects and activities. Even nations sitting on UNDP’s Executive Board cannot freely access this information. Making matters worse, North Korea actually holds a position on the Executive Board and uses this position to impede efforts to access this information. The opaque nature of UNDP impedes proper governance and oversight of the organization. It is reasonable to believe that numerous objectionable activities conducted by UNDP would not have come to light except for the actions of several brave whistleblowers and concerned U.S. officials. Increased access, including allowing member states to have copies of audit reports promptly and allowing them to make that information public, would address this problem.
- *Release all relevant information relating to UNDP activities in North Korea.* During the Senate’s investigative hearing, Senator Tom Coburn (R–OK) revealed that the U.S. Department of State has additional classified information relating to UNDP activities in North Korea that would serve to further inform whether program funds were used by that country to directly support activities unrelated to development projects.<sup>10</sup> The Depart-

7. For examples, see Brett D. Schaefer, “Oppose Handing UNDP Control of U.N. Country Activities,” *WebMemo* No. 1434, April 26, 2007, at [www.heritage.org/Research/InternationalOrganizations/wm1434.cfm](http://www.heritage.org/Research/InternationalOrganizations/wm1434.cfm).

8. Brett D. Schaefer, “The U.N. Must Stop Enabling the Burmese Regime,” *Heritage WebMemo* No. 1710, November 27, 2007, at [www.heritage.org/Research/AsiaandthePacific/wm1710.cfm](http://www.heritage.org/Research/AsiaandthePacific/wm1710.cfm).

9. Press release, “Senate Passes Coleman Amendment to Prevent U.S. Funding to U.N. Development Program Until Implementation of Whistleblower Protection,” Office of Sen. Norm Coleman, at [http://coleman.senate.gov/index.cfm?FuseAction=PressReleases.Detail&PressRelease\\_id=1412](http://coleman.senate.gov/index.cfm?FuseAction=PressReleases.Detail&PressRelease_id=1412).

ment of State should release—with appropriate redactions to protect sources or other information that could compromise U.S. national security—all relevant information on this matter in order to substantiate or refute such reports.

- **Investigate UNDP activities in other authoritarian states.** A number of allegations have been made concerning improper activities funded by, or linked to, UNDP staff or projects in authoritarian states, including Burma, Syria, and Zimbabwe. The Senate Permanent Subcommittee on Investigations should expand its investigation to include UNDP activities in those countries. Similarly, the U.S. Mission to the United Nations should continue its inquiry into UNDP activities and support the Senate's investigation by pursuing audits, reports, and other information on UNDP activities in these countries to see if the organization is fully complying with its rules and procedures.
- **Require UNDP to submit to the authority of the U.N. Ethics Office or to adopt equivalent ethics standards.** One of the few substantive reforms implemented by former Secretary-General Kofi Annan was to establish an ethics office that had a mandate to protect whistleblowers from retaliation. After the Ethics Office found that UNDP retaliated against a whistleblower, UNDP rejected its jurisdiction and authority and initiated its own inquiry. Secretary-General Ban subsequently bowed to UNDP and permitted U.N. funds and programs to set up their own ethics offices. Unfortunately, UNDP announced whistleblower protections that are substantially weaker than those of the U.N. Ethics Office.<sup>11</sup> The U.S. should demand that UNDP adopt, at a minimum, the U.N. Secretariat standards or submit to the jurisdiction of the U.N. Ethics Office.

**Conclusion.** The United Nations Development Program has systematically resisted efforts by its member states to access audits, reports, and other information on its activities, projects, and financial transactions. Such access is critical to proper oversight and good governance. Worse, the organization has rejected standard U.N. rules and protections for whistleblowers and has retaliated against staff who have sought to inform member states about activities of the organization that were not in the best interest of UNDP, the donors, or the people in recipient nations.

Last year, Congress adopted language that would have withheld a mere 20 percent of UNDP funds until the Secretary of State certified that the organization had taken steps to address its opacity, poor management, and insufficient protection of whistleblowers. Unfortunately, the language was weak, and UNDP easily met these standards without substantially addressing its problems. As a result, UNDP can expect full funding in 2008.

This sends precisely the wrong message to UNDP. Congress should utilize the power of the purse to express its dissatisfaction with UNDP activities and withhold U.S. funds from the organization until it meets two conditions: It provides unfettered access to all internal audits, financial documents, and other relevant information to member states; and it either adopts strong whistleblower protections (at least equivalent to those of the U.N. Ethics Office) or submits to the jurisdiction of that body.

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10. Benny Avni, "Solons Suspect Coverup in North Korea Scandal," *The New York Sun*, January 25, 2008, at [www.nysun.com/article/70194](http://www.nysun.com/article/70194).

11. Government Accountability Project, "A Comparative Analysis of ST/SGB/2005/21 and the Updated UNDP Legal Framework for Addressing Non-Compliance with UN Standards of Conduct," October 11, 2007, at [www.whistleblower.org/doc/2007/SGBUNDP.pdf](http://www.whistleblower.org/doc/2007/SGBUNDP.pdf).