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The UNDP North Korea Scandal: How Congress and the Bush Administration Should Respond

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In what seems to be an annual tradition, the United Nations is again embroiled in scandal—this time as willing dupe of the despotic tyranny in North Korea. As reported in *The Wall Street Journal*, the North Korean government (DPRK) convinced the United Nations Development Program (UNDP) to provide hard currency payments to the cash-strapped nation without even minimal safeguards or supervision. Those funds ended up in the hands of Kim Jong-Il's regime.

In addition, the DPRK dictated hiring for UNDP personnel in the country and denied the agency the ability to supervise projects freely. When the U.S. mission to the U.N. questioned these activities, the program denied the U.S. access to internal audits and other relevant information despite America's generous financial support and presence on the Executive Board of the UNDP.

The United States must demand an immediate, fully independent inquiry into this latest scandal. This inquiry must not be led by someone hand-picked by the U.N. Secretary General or by an individual with significant ties to the United Nations. Such an investigation must be extensive, in-depth, and far-reaching, with the power to interview both current and former U.N. officials.

While smaller in scale, the UNDP North Korea scandal echoes features of the earlier Oil-for-Food scandal: a brutal dictator's siphoning of funds earmarked for humanitarian purposes; the U.N. leadership's willingness to appease the whims of an egotistical tyrant; the cloak of secrecy shrouding the

day-to-day running of a major U.N. operation; an extraordinary lack of external oversight and auditing; seeming incompetence and mismanagement on the part of U.N. officials; and hostility toward U.S. requests for documents and information.

It is a depressingly familiar story of U.N. inefficiency and incompetence played out against the backdrop of one of the biggest man-made humanitarian tragedies of our time: the repression and forced starvation of millions of innocent people by a tyrannical despot. The U.S. response, both from the Bush Administration and from Capitol Hill, should be swift and comprehensive.

Given the U.N. Security Council's resolutions¹ and expressed concern about North Korea's nuclear ambitions and recent detonation of a nuclear weapon, the United States should request that the Council authorize a thorough inquiry into the possible support that the wide range of U.N. funds, programs, and activities may be providing to North Korea's pursuit of weapons of mass destruction.

The Latest Scandal. *The Wall Street Journal* revealed, in a searing exposé, a catalogue of serious management failures in the United Nations Development Program (UNDP) operation in North

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Korea, which has allowed millions of dollars to flow to the coffers of Kim Jong-Il.² The *Journal* cites a January 16 letter from Ambassador Mark Wallace of the U.S. mission to the U.N. to the UNDP's leadership that provides a damning indictment of the United Nations operation in Pyongyang:

[B]ecause of the actions of the DPRK government and the complicity of UNDP, at least since 1998 the UNDP DPRK program has been systematically perverted for the benefit of the Kim Jong Il regime—rather than the people of North Korea. The UNDP DPRK program has for years operated in blatant violation of UN rules, served as a steady and large source of hard currency and other resources for the DPRK government with minimal or no assurance that UNDP funds and resources are utilized for legitimate development activities.³

Ambassador Wallace's letter states that "as of 1999 there were twenty-nine ongoing UNDP projects in the DPRK with a total budget of \$27.86 million."⁴ *The Wall Street Journal* reports that "while the precise amount of hard currency supplied through UNDP isn't known, the documents suggest it has run at least to the tens of millions of dollars since 1998 and one source says it could be upwards of \$100 million."⁵

As Ambassador Wallace notes, a number of UNDP practices in North Korea violated UNDP rules and procedures, and there were many opportunities for abuse and manipulation by Pyongyang. The U.N.'s local staff "was dominated by DPRK government employees," and UNDP officials were "not permitted to perform site visits to many UNDP

DPRK projects in violation of UNDP rules."⁶ North Korean government employees "performed financial and program managerial core functions in violation of UNDP rules," giving them a significant degree of control over operations. In addition, Pyongyang insisted upon cash payments to local DPRK government suppliers, creating a lucrative source of foreign currency for the isolated North Korean regime, money that may have helped fund its nuclear weapons program.

While the UNDP activities were the focus of *The Wall Street Journal* article, U.N. support for North Korea does not stop there. Until the *Journal* story led to a change in policy, the UNDP reimbursed the DPRK for the travel expenses of its government representatives who attended its meetings.⁷ Moreover, assuming that the DPRK treats other U.N. programs and funds operating in North Korea (such as UNICEF) in a similar way to the UNDP, unwitting U.N. financial support to the DPRK could actually be far more than that provided through the UNDP.⁸

U.S. Financing for the UNDP. U.S. funding for the U.N. Development Program is substantial. According to the UNDP, gross regular resource income through contributions by member states totaled \$921 million in 2005, of which the U.S. provided \$105 million. However, the bulk of UNDP financing comes through donor co-financing and resources provided by recipient country governments that are used to support projects and development programs in the recipient countries. Nearly all developed donor countries co-finance UNDP programs, and donor co-financing totaled more than \$2.5 billion in 2005, of which the U.S. provided \$140.8 million. Local resources totaled over

1. Security Council Resolution 1718, United Nations Document S/RES/1718, October 14, 2006, at daccessdds.un.org/doc/UNDOC/GEN/N06/572/07/PDF/N0657207.pdf, and Security Council Resolution 1695, United Nations Document S/RES/1695, July 15, 2006, at daccessdds.un.org/doc/UNDOC/GEN/N06/431/64/PDF/N0643164.pdf.
2. Melanie Kirkpatrick, "United Nations Dictator's Program" *The Wall Street Journal*, January 19, 2007.
3. Letter from Ambassador Mark D. Wallace, United States Representative for United Nations Management and Reform, to Ad Melkert, Associate Administrator, United Nations Development Program, January 16, 2007, available at www.opinionjournal.com/editorial/011907letter.pdf.
4. *Ibid.*
5. Kirkpatrick, "United Nations Dictator's Program."
6. Letter from Ambassador Mark D. Wallace.
7. Kirkpatrick, "United Nations Dictator's Program."

\$1 billion in 2005. All told, UNDP programs, activities, and other expenses spent amounted to well over \$4 billion in 2005.⁹

According to the U.S. Department of State, the U.S. provided an estimated \$108.9 million to the United Nations Development Program in fiscal year 2006, and the administration requested \$94.5 million for fiscal year 2007.¹⁰ This does not include additional, larger amounts regularly provided by the U.S. in co-financing support of UNDP programs.

Transparency and Accountability. *The Wall Street Journal's* reporting demonstrates that the UNDP lacks the characteristics of an open and transparent organization, noting that the U.S., despite sitting on the UNDP executive board and contributing over \$200 million in 2005, is given short shrift:

American officials have had to fight for even the most basic information on the UNDP's activities in North Korea. When the U.S. Mission asked for copies of the internal audits of the North Korean operations, it was rebuffed. "Internal audit reports are important management tools for Executive Heads and, therefore, confidential," wrote Kemal Dervis, UNDP's head, on Jan. 5. After protests, American officials were finally permitted to review three internal audits—1999, 2001, 2004—but were not allowed to retain copies.¹¹

Indeed, despite being praised as a model for reform of an international organization, the UNDP lags behind the oft-criticized U.N. Secretariat in a

key area of transparency: Unlike the Office of Internal Oversight Services (OIOS), whose audits must now be shared with member states upon request, the internal audit reports of the Office of Audit and Performance Review of the UNDP are not available to the public or to member states.

Recommendations for the Administration. The Bush Administration should act immediately to ensure that resources provided to, or in coordination with, international organizations do not support repressive regimes. Washington should:

- **Immediately freeze U.S. contributions to the UNDP and other U.N. funds, programs, and activities operating in North Korea** until those organizations comply with appropriate standards of transparency in their activities and documents. This must include granting all member states full access to UNDP audits and associated documents upon request. Most immediately, the United States should call for all internal U.N. documents relating to UNDP operations in North Korea to be made publicly available.
- **Suspend U.S. co-financing or voluntary funding of U.N. activities in North Korea** and other repressive regimes until there is a reasonable certainty that the funds and activities do not directly or indirectly support the government.
- **Urge an independent Security Council-backed inquiry into U.N. activities in the DPRK, including UNICEF, World Food Program, and other U.N.-related operations.** The inquiry leader should not be hand-picked by the U.N. Secretary General and should be protected

8. The UNICEF Plan of Action in DPR KOREA in 2007 outlined a program costing \$10 million. See "UNICEF Plan of Action: DPR Korea in 2007," UNICEF, www.unicef.org/dprk/Plan_of_Action_2007.pdf (January 22, 2007). According to *Reuters*:

Melkert said that UNDP as well as the U.N. Children's Fund UNICEF and other agencies often had no other way of operating in the country, especially during times of famine or floods. UNICEF said it had not decided at this point to change the way it pays for its programs in North Korea. "We do pay national staff through the host government in euros. There has been no decision at this point to change that," said Geoffrey Keele, a UNICEF spokesman.

See Irwin Arieff, "UN group, with US push, to change N. Korea funding," *Reuters*, January 19, 2007, at today.reuters.com/news/CrisesArticle.aspx?storyId=N19241536.

9. "Annual Report 2006: Global partnership for development," United Nations Development Program, June 2006, pp. 34–35, at www.undp.org/publications/annualreport2006/english-report.pdf.

10. "Account Tables: International Organizations and Programs," FY 2007 International Affairs (Function 150) Budget Request, Bureau of Resource Management, February 6, 2006, at www.state.gov/s/d/rm/rls/iab/2007/html/60203.htm.

11. Kirkpatrick, "United Nations Dictator's Program."

from all forms of interference and manipulation by the U.N. Secretariat, UNDP leadership, and other U.N. agencies. It should be headed by an experienced investigator without any ties to the United Nations or affiliated bodies.

- **Demand that the UNDP suspend all funding to projects in North Korea until the independent investigation is complete.** The United Nations as a whole has reportedly pumped \$2 billion in total resources into North Korea since the mid-1990s.¹² The U.S. has proposed a motion to defer UNDP programs in North Korea pending an investigation that will be considered at the UNDP executive board meeting this week. The U.S. should insist that this investigation be conducted by an independent authority and that the investigation have full access to all UNDP projects in North Korea.
- **Call upon South Korea to allow the independent commission of inquiry to review Seoul's extensive unilateral provision of assistance to the DPRK.** South Korea has provided approximately \$5 billion in aid to Pyongyang during the past decade, including a secret \$500 million payment to secure the 2000 inter-Korean summit. An independent inquiry could resolve lingering concerns over the extent and nature of South Korean largesse.

Recommendations to Congress. The role of Congress in pushing for reform of the United Nations and greater openness and transparency in the world organization is critical. An independent inquiry, backed by the U.N. Security Council, would shine a powerful spotlight on the failure of the UNDP's operation in North Korea. But as the Oil-for-Food inquiry demonstrated, congressional hearings, oversight, and investigation are also necessary to paint a complete picture of this latest scandal.

The House and Senate investigations into Oil for Food played a pivotal role in unearthing what happened behind the scenes of the world's largest-ever humanitarian program. The sustained pressure from Capitol Hill, as well as the threat to withhold funds, significantly helped to focus minds and open

doors and dusty files at the U.N. Moreover, this effort dramatically raised the profile of U.N. reform issues. It should be a key demand of the U.S. government that any major U.N. inquiry must work with, and not against, congressional investigations into the misuse of U.S. taxpayer funds.

- **Conduct Hearings and Oversight.** As part of its oversight of U.S. policy towards the DPRK, the Senate Committee on Foreign Relations and the House Committee on Foreign Affairs should examine whether U.N. programs operating within the DPRK—including the UNDP—are harming U.S. interests.

Specifically, the Committees should determine whether certain U.N. programs are effectively providing hard currency to the Kim Jong-Il regime, rather than for legitimate development projects and other humanitarian assistance.

The Committees should hold hearings into this matter to raise public awareness of the issues involved with funding U.N. activities in the DPRK. UNDP Administrator Kemal Dervis and former UNDP chief Mark Malloch Brown should be asked to testify.

- **Withhold Funding.** As part of their appropriations processes, the House Committee on Appropriations and the Senate Committee on Appropriations should not approve any additional funding of UNDP operations until: (1) a full independent and outside forensic audit of the UNDP's activities and the activities of other U.N. funds and programs in the DPRK are completed; and (2) Congress is satisfied that the DPRK is not converting UNDP and other U.N. humanitarian programs' funds for its own purposes.
- **Investigate.** The House Subcommittee on Oversight and Investigations of the Committee on Foreign Affairs and the Senate Permanent Subcommittee on Investigations should strongly consider following their successful Oil-for-Food inquiries with in-depth investigations of and hearings into the UNDP's operations in North Korea.

12. Figure cited in Claudia Rosett, "UN's 'Cash for Kim' Scandal: Ban Should Look Next at North Korea, World Food Program," *FOXNews.com*, January 22, 2007, at www.foxnews.com/story/0,2933,245538,00.html.

Conclusion. Former Secretary-General Kofi Annan has bequeathed yet another scandal as his legacy at the United Nations. To his credit, new Secretary-General Ban Ki-moon announced in the wake of *The Wall Street Journal* report that he would “call for an urgent, system wide and external inquiry into all activities done around the globe by the U.N. funds and programmes.”¹³ The UNDP has subsequently declared that it will make payments for operations in North Korea only in local currency by March 1 and that it will “welcome an independent and external audit of our operations in North Korea [and] strongly support the secretary-general’s call to have an inquiry into the operations of the U.N.’s funds and programs world-wide...”¹⁴

However, these declarations must be followed by action. Indeed, Ban faces an enormous challenge in cleaning up an institution that has proven vulnerable to corruption, mismanagement, and political manipulation by repressive regimes. Never again should a brutal dictatorship be allowed to manipulate a U.N. operation that is aimed at helping some of the world’s most impoverished and vulnerable people.

To help ensure this outcome, the U.S. should press for a completely independent investigation

into the North Korea scandal and demand that the “system-wide” inquiry into U.N. activities around the world apply particular scrutiny to U.N. activities in countries under U.N. sanction and in states like Sudan and Zimbabwe where there is extensive government interference in the activities of private sector charities, non-governmental organizations, and bilateral and multilateral assistance efforts.

At the same time, Congress should launch its own inquiries into the UNDP scandal, ensuring that the U.N.’s bureaucracy is held accountable to member states. Congressional oversight has proven critical in the fight to reform the United Nations, and Congress has a key role to play in getting to the heart of one of the biggest scandals in the history of the U.N.

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13. U.N. Secretary-General Ban Ki-moon, “Statement attributable to the Spokesperson for the Secretary-General on UNDP,” United Nations, January 19, 2007, at www.un.org/apps/sg/sgstats.asp?nid=2413.

14. Ad Melkert, “We Welcome an Independent Audit”, *The Wall Street Journal*, January 22, 2007, at www.opinionjournal.com/extra/?id=110009559.