

**OPENING STATEMENT
SENATOR NORM COLEMAN
RANKING MINORITY MEMBER
SENATE PERMANENT SUBCOMMITTEE ON INVESTIGATIONS
HEARING ON
UNITED NATIONS DEVELOPMENT PROGRAM OPERATIONS IN NORTH KOREA
January 24, 2008**

As Chairman Levin noted, today's hearing examines management and transparency problems in the operations of the United Nations Development Program (UNDP) in North Korea. At the outset, I want to express my sincere appreciation to Senator Levin and his staff for their support in this investigation. This bipartisan effort highlights the Subcommittee's most enduring and valuable contribution to American governance: the recognition that some matters are of such gravity that they transcend partisan politics and require apolitical, sober examination. This would not have been possible without your cooperation and leadership, Mr. Chairman, and I thank you.

One of those issues that should transcend partisanship is our obligation to ensure that American tax-dollars are not being used to harm American interests. Now, more than ever, the United States must balance two competing interests: its core duty to protect the American people from its enemies, on the one hand, and its moral obligation to lead the effort to improve the lives of the downtrodden in the under-developed world, on the other. These efforts need not conflict. In fact, in many situations, the goals work hand-in-hand – by helping the downtrodden, we simultaneously undermine their oppressors and empower them to transform their own countries into free – and non-threatening – members of the international community.

The United Nations is one of America's most important partners in this endeavor. When the UN operates transparently, efficiently and with accountability, it can make great progress on the most intractable problems facing the world. The United Nations Development Program, which is the largest development agency in the United Nations system, is a central part of that effort. Its mission is noble: building democratic societies, reducing poverty, assisting in crisis recovery, protecting the environment, and curbing the AIDS epidemic around the globe. Noble work, indeed.

However, if UN agencies like UNDP can be manipulated by belligerent regimes, Congress must re-examine the terms under which it funds the UN's efforts. The evidence uncovered by the Subcommittee's investigation brings this obligation into sharp focus.

Over the course of the Subcommittee's inquiry, we have reviewed thousands of pages of documents, interviewed officials from the Departments of State, Commerce and Treasury, as well as current and former UN and UNDP personnel. I want to echo Senator Levin's gratitude to the UNDP for their willingness to be interviewed for dozens of hours. Subcommittee staff also sought out and met with representatives of the North Korean government, who corroborated much of the evidence collected by the Subcommittee.

Our investigation gathered evidence establishing the following facts:

- First, there were a range of deficiencies in UNDP's managerial and transparency controls that left it vulnerable to manipulation by the North Korean regime.
- Second, the North Korean government engaged in deceptive financial transactions to move more than \$2.7 million all around the world under the pretense of UN activities.
- Third, more than \$50,000 was transferred directly from UNDP to an entity that, according to a State Department letter, has "ties" to efforts by the North Korean regime to engage in weapons-related activities.

Each of these areas is discussed in great detail in a Subcommittee staff report issued in conjunction with today's hearing.

As we review the evidence and examine UNDP operations, we should note that the United States pays much of the UN's annual bills. We contribute hundreds of millions of American tax-dollars to UNDP every year – for example, American taxpayers funded UNDP to the tune of 247 million dollars in 2005 alone. To be clear, that is on top of the \$1 billion the US contributes to the UN Secretariat every year. We should keep these expenditures in mind as we explore the evidence. Let's turn to that evidence now.

Managerial and Transparency Failures

The Subcommittee reviewed several management practices in UNDP's North Korea office and found that the North Korea operation suffered from certain significant deficiencies. These weaknesses related to a number of crucial activities, ranging from cash management to staffing. For instance, the North Korean government forced UNDP to fill sensitive positions with North Korean officials chosen by the regime. As one UNDP official acknowledged, those employees were "effectively agents of the [North Korean] government." In addition, UNDP was pressured by the North Koreans to make payments in hard currency – like US dollars and Euros – which the regime was desperate to obtain. Finally, the regime imposed severe restrictions that hindered UNDP's ability to monitor the very projects that it was funding.

Many of the practices we identified were inconsistent with UNDP policy and best practices. Some of these problems resulted from one central failure: UNDP never adopted formal, definitive protocols in its North Korea operations. Instead, it relied on a series of ad hoc arrangements cobbled together to accommodate North Korean sensitivities. UNDP agreed to forgo formal agreements because the North Koreans resisted signing them, and UNDP believed it could operate without them.

However, the Subcommittee's investigation indicates that operating under these fluid arrangements with a totalitarian regime like North Korea left UNDP vulnerable to manipulation. Let's not forget that this is a brutal, oppressive regime that was starved for hard currency and willing to do whatever it takes to get it. And UNDP was well aware of that. Yet, UNDP largely acquiesced to North Korea's demands in order to keep its development projects going.

These are certainly noble goals, but I fear that UNDP's good intentions led to a well-intentioned culture of laxity. In short, UNDP's desire to assist the North Korean people apparently overrode their need to take necessary precautions. In effect, UNDP operated in a Chernobyl environment with a Haz-mat suit made of mesh – ostensibly it was covered, but in reality it was vulnerable.

Many of the Subcommittee's findings result from an analysis of UNDP's internal audits. Significantly, these internal audits were never intended to see the light of day. Even though the US is among a handful of countries that provide the bulk of funding for UNDP, the US government is forbidden from reading UNDP's audits. Member-states, especially large donors like the US, should have access to the UN's audits. Both donors and recipients of aid money have a stake in ensuring that funds and programs are managed in an efficient, transparent manner. The UN's refusal to share audits with its donors gives the impression that the UN has a "Keep your wallets open, and your mouths shut" stance toward the rest of the world. That stance is antithetical to the concepts of transparency and accountability. Indeed, UNDP rightly preaches transparency and accountability to the developing nations that it is assisting – it seems that UNDP should practice what it preaches.

After speaking with UNDP's Administrator, Kemal Dervis, about this very issue earlier this week, I am confident that UNDP will take some strides to improve their audit-release policy. If UNDP fails to make a substantial change in policy, however, Congress should seriously consider changing the way we donate American tax-dollars to the UNDP and any other UN agencies that do not share their audits with donors and member states.

Retaliation and the UN's Whistleblower Protection Policies

No operation can achieve transparency and accountability when its employees cannot report wrongdoing without fear of retaliation. A recent UNDP story makes that abundantly clear. A central figure in this inquiry is Mr. Artjon Shkurtaj, the former Operations Manager in UNDP's North Korean offices. It was Mr. Shkurtaj who first reported concerns with UNDP's North Korea program, and without his willingness to speak up and identify potential problems inside UNDP, none of these issues would have come to light. After he spoke out about the questionable practices, Mr. Shkurtaj was effectively terminated by the UNDP. He has alleged that this was retaliation for speaking out – that he was blacklisted because he blew the whistle.

While the Subcommittee will not address that particular matter today, his story exposed a gaping hole in the UN ethics regime. When the UN created the Ethics Office in the wake of the Oil-For-Food scandal, it appeared to be a step in the right direction. This highly-touted reform, however, was largely eviscerated in its first real test – Mr. Shkurtaj's complaint against UNDP. In response to Mr. Shkurtaj's claim, UNDP argued that the Ethics Office covered only the UN Secretariat and not funds and programs like UNDP. The Ethics Office determined that Mr. Shkurtaj did, in fact, make a prima facie case of retaliation – but ultimately it agreed with UNDP, concluding that it did not have jurisdiction over anything but the Secretariat. That ruling undermined the whistleblower protection policies for thousands of employees in the UN's funds and programs. In short, that decision gutted the UN's signature management reform.

It goes without saying that a strong whistleblower protection policy will strengthen an organization in the long run. That is why I sponsored legislation that conditions UNDP funding

on fair and effective whistleblower protection policies. The Secretary-General recently issued a bulletin to broaden the UN's ethics rules and expand the whistleblower protections. That is certainly encouraging. The proof, however, is in the pudding, and I look forward to hearing from our witnesses and briefers from the UN about whether these newly-announced measures are adequate.

Deceptive Financial Practices by the North Korean Government

Beyond the management and oversight deficiencies, the Subcommittee has obtained evidence establishing that the North Korean government engaged in deceptive financial transactions under the guise of United Nations activity. In particular, the Subcommittee obtained wire transfers and other banking records that document nine transfers, in which the North Korean government moved a total of \$2.72 million from its accounts in Pyongyang to its accounts in Western banks. The banking records indicate that the North Koreans routed the transactions through a front company in Macau and suggested that the transfers were for the "purchase of building[s]" in Canada, the United Kingdom and France. What is most troubling of all, however, is that the North Korean regime invoked the name of the UN to give the transfers some legitimacy. The Subcommittee has confirmed with UNDP and the North Korean government that these transactions had absolutely nothing to do with any UN activities. While it is unclear how the funds were ultimately used, these transactions illustrate how this rogue regime was able to move large amounts of funds out of North Korea and into the West's financial system, dropping the UN name as a cover story.

UNDP officials have advised this Subcommittee that they found these transactions deeply disturbing. They stated that they did not know of the transactions, and that none of its projects would entail the purchase of buildings in North America or Europe. While the funds do not appear to have included UNDP money, the key is not that the origin of the money in this particular instance, but rather that there are loopholes in the system – UNDP itself has admitted that none of its controls could have caught this apparent misuse of its name by the North Korean regime.

These transactions represent a cause for alarm. The reason for the elaborate measures used to shield these transfers – such as the use of the front company, the bogus connection to the UN, the use of buildings or property purchases to justify large transfers – is clear: North Korea was trying to shield its financial maneuvers from scrutiny and give Kim Jong Il greater access to international financial institutions.

In fact, the North Koreans told us that quite clearly. North Korean officials informed the Subcommittee that, following President Bush's State of the Union Address in 2002, in which he included North Korea in the "Axis of Evil," their government feared that its assets would be frozen. So, the regime sought secure paths to funnel its money to more secure accounts. The account related to the UN activity presented a safe route.

The ostensible connection to UN activities is perhaps the most troubling aspect of these discoveries. Officials from executive agencies have advised the Subcommittee that transactions involving UN entities would likely receive less scrutiny from bank regulators and bank compliance units who may simply assume that such transfers are in furtherance of UN-related activity. In effect, North Korea's bogus description of these transfers as related to UNDP

activity is the financial equivalent of painting a Red Cross symbol on a Bradley Fighting Vehicle.

The significance is clear. Recently, the US government has been making overtures to the North Korean regime. Officials from the federal government recently met with North Korean financial officials to advise them on how they could re-enter the international financial system. Moreover, Congress may be asked to alter the laws currently prohibiting certain transactions from being conducted with North Korean entities; it is equally likely that Congress will be asked to increase funds for North Korean humanitarian, developmental and nuclear monitoring projects. As Congress contemplates these moves, it would be irresponsible not to seek assurances that such matters are being addressed.

At the same time, UNDP must determine whether their name is being used elsewhere in connection with questionable activities. By definition, UNDP operates in countries that are in dire need of development assistance. They are dealing with the worst, most untrustworthy regimes on the planet. It is deeply disturbing that there are no controls in place to prevent such manipulation of UNDP's presence. UNDP should take steps to ensure that its name and resources are not used as cover for non-UN activities. The US should seek assurances from UNDP that its name, offices and resources are not being used by outlaw or corrupt states to facilitate their financial shenanigans.

Weapons Proliferation Transfers

Unfortunately, these are not the only type of troubling transactions that the Subcommittee has uncovered. The Subcommittee has established that UNDP made payments totaling more than \$50,000 to an entity that, according to a letter from a State Department official, has "ties to a North Korean entity that that has been designated [by the US government] as the main North Korean financial agent" for sales of weapons and missiles. The payments at issue are described more completely in a classified annex to the Subcommittee staff report and, for reasons of national security, we are precluded from further disclosure concerning those matters in an open hearing. Suffice it to say, however, that these transactions raise disturbing questions. UNDP has responded that it made these payments on behalf of UNESCO, another UN agency operating in North Korea. While we have no evidence to the contrary, it is beside the point: under no circumstances should UN funds be transferred to an entity connected with nefarious activity. UN agencies should adopt more aggressive measures to ensure that the vendor is not associated with illicit conduct.

The matters to be examined here today and in the staff report make clear both Congress's obligation to have accurate and complete information on the agencies it funds with US taxpayer money, as well as the obligation of executive agencies to exercise appropriate oversight over multilateral bodies such as the United Nations. The evidence also demonstrates that UNDP should adopt stronger safeguards when operating in totalitarian regimes to ensure that it will not be vulnerable to manipulation by the host country.

Let me be clear: I appreciate UNDP's hard work – they operate in the most difficult political and social environments on the globe and seek to improve the lives of the world's most downtrodden

people. I share those objectives and I am encouraged by the constructive dialogue we have maintained with UNDP throughout this process. I look forward to continuing that constructive discussion with the UNDP representatives, as well as our other witnesses today.

* * *