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Did UN agency serve as ATM for North Korea?

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WASHINGTON -- The United Nations Development Programme office in Pyongyang, North Korea, sits in a Soviet-style compound. Like clockwork, a North Korean official wearing a standard-issue dark windbreaker and slacks would come to the door each business day.

He would take a manila envelope stuffed with cash--a healthy portion of the UN's disbursements for aid projects in the country--and leave without ever providing receipts.

According to sources at the UN, this went on for years, resulting in the transfer of up to \$150 million in hard foreign currency to the Kim Jong Il government at a time when the United States was trying to keep North Korea from receiving hard currency as part of its sanctions against the Kim regime.

"At the end, we were being used completely as an ATM machine for the regime," said one UN official with extensive knowledge of the program. "We were completely a cash cow, the only cash cow in town. The money was going to the regime whenever they wanted it."


Earlier this month, the development program, known as UNDP, quietly suspended operations in North Korea, saying it could not operate under guidelines imposed by its executive board in January that prohibited payments in hard currency and forbade the employment of local workers handpicked by the North Korean government.

But some diplomats suspect the timing of the suspension was heavily influenced by a looming audit that could have proved embarrassing to the UN.

Documents obtained by the Tribune indicate that as early as last May, top UNDP officials at headquarters in New York were informed in writing of significant problems relating to the agency's use of hard foreign currency in North Korea, and that such use violated UN regulations that local expenses be paid in local currency. No action was taken for months.

Then, under pressure from the United States, UN Secretary General Ban Ki Moon on Jan. 19 ordered an audit of all UN operations in North Korea to be completed within 90 days, or by mid-April.

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The Board of Auditors, the UN body tasked with the audit, made no movement on the audit for 40 days after Ban's order. It sent out its notification letter for the beginning of the audit on the same day the development program announced the closure of its office--March 1.

That timing, combined with past concerns about the UNDP's transparency, has raised suspicions that suspending operations would be a way to hamstring the audit, the results of which may prove damning to the organization.

"The office was closed precisely for that reason," said another UN official with extensive knowledge of the program. "With no operations in place, first of all, you have no claim to get auditors into the country. Second, it will take months and months to get documentation out of the office there, to transfer to somewhere else like New York."

The UN sources who spoke about the development operations in North Korea requested anonymity either for fear of retribution or because of the diplomatic sensitivity of the subject.

The saga of the UNDP in North Korea provides more fuel for critics who have complained that the UN is a sprawling bureaucracy with few safeguards and little accountability. The Bush administration has been particularly outspoken about the UN's need for reform.

The oil-for-food scandal, which erupted in 2004, involved corruption in a program designed to provide humanitarian aid for Iraqis, whose country faced economic sanctions. Ultimately, it emerged that the program had resulted in \$1.8 billion in kickbacks and surcharges paid to Saddam Hussein's regime.

Ban, a South Korean who took office in January, has sought to present himself as a fresh-faced reformer.

Nuclear talks in background

All this occurs against the backdrop of intensifying talks with Pyongyang over its nuclear weapons capacity, the most recent of which took place last week in New York. Last month, the U.S. and four other nations signed a deal with North Korea promising aid in exchange for the shutting down of a nuclear reactor and a series of steps toward disarmament and normalized relations.

A spokesman for the U.S. mission to the UN, Richard Grenell, said the U.S. supports the audit going forward to find out the extent of the problems at the UNDP office in Pyongyang. North Korean officials could not be reached.

Despite the closure of the UNDP office in North Korea, the audit is moving ahead. UN officials say they expect the audited documents to show not only the hard currency transfers to representatives of Kim's government, but also the inability of staff on the ground to confirm that the money was going to its programs.

According to sources familiar with UN operations in North Korea, the international staff of the development program and other UN agencies were not allowed to leave the compound without a government escort.

They were not allowed to go outside Pyongyang without receiving special permission from the military at least a week in advance. They were not allowed to set foot in a bank. And under no circumstances

were they allowed to make unrestricted visits to the projects they were supposed to be funding.

These rules mirror the restrictive conditions set by the U.S. government on diplomats from North Korea who must stay within 25 miles of New York City.

The UNDP, whose mission is to help the country develop economically, was one of several UN agencies operating in North Korea, including UNICEF and the World Health Organization. The United Nations is one of few channels for foreign aid in the secretive, authoritarian country.

Computer mystery

One of the UNDP projects, sources said, involved the purchase of 300 computers for Kim Il Sung University. The computers supposedly arrived in Pyongyang, but the international staff was not allowed to see the equipment it had donated.

Finally, after a month and a half of pressuring their North Korean handlers, staffers were led to a room in which two computers sat. They were told the others were packed in boxes, which they were not allowed to open.

And while the UNDP's programs--which have included projects such as "Human Resource Upgrading to Support Air Traffic Services" and "Strengthening of the Institute for Garment Technology"--cost anywhere from \$3 million to \$8 million a year total, the development program also acted as the administrative officer for all the UN agencies and wrote checks for tens of millions of dollars worth of programming every year.

The UNDP's financial officer and its treasurer in Pyongyang, who issued those checks, were both North Korean.

Standard practice?

UN officials privately describe a vivid scene playing out at the agency's compound each day.

A driver in a UN-issued Toyota Corolla would pull out of the compound's gate, taking UN checks to the bank. A short time later the driver, a North Korean employed by UNDP, would return with manila envelopes stuffed with tens of thousands of dollars in hard currency.

Then the windbreaker-clad North Korean official would show up and take the cash away.

UNDP spokesman David Morrison said the use of hard currency and the hiring of staff through local governments was standard practice in authoritarian countries like North Korea. Morrison said his understanding was that the agency had never had problems with site visits, and that in 2005 its staff had visited 10 of its 11 monitorable projects.

The agency was complying with the audit, Morrison said, "in order to take away even the perception that anything was untoward."

But others believe the development program has no choice but to cooperate with the audit.

In January, a letter written to the head of UNDP by Mark Wallace, the U.S. ambassador to the UN for management and reform, was leaked to the U.S. media. The letter, which drew on Wallace's review of internal audits dating back to 1998, accused the program of having been "systematically perverted for the benefit of the Kim Jong Il regime."

These claims by the United States, supported by Japan, the two biggest donors to UNDP, pressured the secretary general to quickly order the audit.

"If there were simply the use of hard currency, or simply no site visits, that's one thing," said a UN diplomat familiar with the issue. "But when you combine the fact that large cash payments were made directly to officials of Kim's government with the fact there were no site visits to verify how the cash was being used, that's a great cause of concern."

The first phase of the audit is scheduled to begin Monday in New York. It remains unclear whether the auditors will attempt to visit North Korea. It is possible that even if the UNDP office were still open, Pyongyang would not have granted them visas.

Even with its limited scope, the audit could yield significant revelations about how the agency worked in a dictatorial, tightly controlled society.

"There wasn't a snowball's chance in hell that they'd allow us to see what they did with all the cash they received," said a member of the diplomatic community in New York. "But UNDP headquarters and the country office should be able to tell us what kinds of checks they were making, were they paid in cash, what, who, where the money was going to."

The Board of Auditors had no comment for this article, but Morrison, the UNDP spokesman, said the organization was making arrangements to safeguard documents by transferring them to one of the other UN agencies in Pyongyang. He said that those necessary for the initial stages of the audit would be copied and carried to New York in electronic form by the UNDP chief in Pyongyang, who is due to leave North Korea within days.

But some suggest the mid-April deadline does not leave enough time to produce a thorough review.

"I don't think this is an audit you can whip through in 30 days; this may take some time," John Bolton, the U.S. ambassador to the UN until the end of last year and a staunch critic of the world body, said when contacted by the Tribune for a reaction to the newspaper's reporting of the cash payments. "But I think for the reputation and integrity of the UN system, it's critical that it proceed without delay."

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