



22 January 2007

Dear Members of the Executive Board,

In view of the forthcoming Executive Board session on the DPRK country programme on Thursday 25 January 2007 I would like to provide you with some supplementary information to aid the discussion and to allay any concerns which may have emanated from the Wall Street Journal article on DPRK of 19 January 2007.

Please do not hesitate to let me know should you require further clarifications.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Kemal Derviş', is written over the typed name below it.

Kemal Derviş

Members of the UNDP Executive Board



**Note for the UNDP Executive Board**  
**UNDP Position on the Democratic People's Republic of Korea (DPRK) Country Programme and Operations**

**1. UNDP operations in DPRK:**

UNDP is implementing the DPRK programme in accordance with the decisions of the entire Executive Board and with the resolution passed recently by the UN Security Council. There are a number of formal safeguards in place to ensure that implementation is in compliance with existing rules and regulations, including the opportunity for the UN Member States to raise audit issues on country programme implementation on the basis of the annual report by the UN Board of Auditors. These procedures serve both as an oversight mechanism and as a safeguard for UN country staff, particularly staff that are performing duties in the most difficult of circumstances.

Circumstances in countries vary tremendously. Yet there is, and should continue to be, a single set of procedures that our operations adhere to. The Administrator and Associate Administrator do not tolerate exceptions to the standard norms in country programme implementation. Since the country programme is owned by the programme country this requires full compliance from the latter's side in order to enable agencies, funds and programmes to do their work. In the particular circumstances that define the options for implementation of the DPRK country programme by UNDP, the fundamental question is whether there is a role for UNDP at all, or for that matter other UN agencies. Whilst this is a decision for the Executive Board, we would like to emphasize that UNDP staff are in North Korea because, to date, the entire Executive Board has expressed the wish for us to be there.

**2. Use of hard currency:**

The financial management of our programmes is governed by the UNDP Financial Rules and Regulations. Financial Regulations were approved in the Executive Board decisions 2000/4 and 2005/17. These do not stipulate specific requirements with regard to the utilization of currencies. The decision regarding the choice of currencies utilized is made by the head of each Country Office. This is included in an internal instruction issued by the Director of the Bureau of Management (BOM). The Director of BOM has been delegated authority by the Administrator to issue instructions of this nature. As a result, written waivers regarding utilization of currencies are not required by the UNDP programme in DPRK. In the internal manual on administration and management Country Offices are encouraged to utilize local currencies as circumstances permit, thereby ensuring adequate use of accumulated local currencies and furthermore mitigating risks of devaluation. Parenthetically current payments in hard currency only refer to Euros.

The UNDP Executive Board at its regular session in 2005 on 28 January 2005 took note of the current DPRK Country Programme (2005-2006) in its decision 2004/41 without a specific reference to the utilization of hard currency, generally or by category.

There is not formal requirement to pay local expenditures exclusively in local currency, although Country Offices are encouraged to utilize local currencies as circumstances permit.



To further clarify the issue of the use of hard currency: either we pay our local staff and contractors in Euros or we exchange Euros for North Korean Won via the central bank. To mitigate possible misperceptions about paying euros directly to national staff, we decided to change our policies in mid-December and will no longer be making direct payments in hard currency to government, national partners, local staff and local vendors as of 1 March 2007. However, the fact remains that UNDP, and any other international entity working in DPRK, must purchase local currency from the DPRK Central Bank.

### **3. Recruitment of local staff:**

The local situation in DPRK is the same for UNDP as for diplomatic missions, international organizations and NGOs in DPRK: we are subject to service agreements with the government on national staff provision. The pertinent point is whether we would want to continue this situation. It is clear that we do not want this practice to continue as of mid-December we have decided to discontinue sub-contracting of national staff via government recruitment and we have informed the DPRK government of this decision.

### **4. Content of the proposed country programme in DPRK:**

The country programme for DPRK before you was based on the assumption of a transition to a stage of institutional development. However, in the given circumstances, we would be ready to further reconsider the content of the programme, and make necessary adjustments to the contents of the proposed programme, namely to confine our support to more narrowly circumscribed human development objectives and submit this for consultation with the DPRK government.

### **5. Oversight of the programme:**

On the basis of the most recent audits conducted in 1999, 2001 and 2004 we have no reason to believe that our programmes were subverted to fund non-legitimate activities.

In terms of oversight of the programme in DPRK over the years, UNDP has put in place audits and has made continuous adjustments to tighten our systems and controls while working in difficult circumstances. In addition additional measures have been put in place to strengthen monitoring and evaluation of the DPRK country programme.

Out of eleven ongoing projects that are nationally executed, nine are, de facto, directly executed by UNDP in the form of country office support to NEX. Accordingly, UNDP financial, procurement and personnel policies have been applied to their implementation, including a review by the Local Contracts, Assets and Procurement Committee as necessary. For two NEX projects, advances have been given on a quarterly basis, and reporting has been received from project authorities on the amounts spent as per UNDP programme procedures. No advances have been made for any other ongoing NEX project. All advances to the government have been discontinued as of January 2007. Importantly the total of transfer payments for 2005/06 is, to be precise, US\$337,701.28.

Senior management recognize the need for increased caution in the post-sanctions environment and we therefore intend to seek confirmation that the future country programme would be in accordance with Security Council Resolution 1718.



There has been a noticeable improvement in the implementation of audit recommendations between 1999 and 2004. The internal auditors' count shows that meaningful follow-up was given to the many audit recommendations, with a remarkable decrease in the apparent need for recommendations in 2004 as opposed to the high numbers in 1999 and 2001

Status Summary	Implementation of Recommendations for Audit Report RCM0018* (issued Aug 1999) as at 30 June 2000	Implementation of Recommendations for Audit Report RCM0081* (issued Jul 2001) as at December 2006	Implementation of Recommendations for Audit Report RCM0148 (issued Sept 2004) as at December 2006
Implemented	17	27	8
In progress	11	7	4
Not implemented	3	3	1
Unclear	N/A	0	0
Not applicable	N/A	1	1
Total no. recommendations	31	38	14

\* the audits conducted in 1999 and 2001 were carried out by the audit firm KPMG (based in Malaysia)

While this does not indicate that everything is perfect, it underscores the serious effort made to ensure effective oversight, despite a less than conducive environment. Moreover the recommendations have identified fundamental issues that needed to be addressed beyond the existing framework of cooperation with DPRK, i.e. direct payments in hard currency to government, national partners, local staff and local vendors and sub-contracting of national staff via government recruitment. As indicated above we have decided to discontinue both practices.

Consistent with UN system-wide policies and practices as articulated in May 2005 by the UN Chief Executives' Board's High Level Committee on Management, internal audit reports are important management tools for Executive Heads and therefore confidential. The United Nations Board of Auditors, has full access to all internal audit reports, and includes their findings as needed in its publicly-available annual report to the General Assembly. However, we are currently in discussion with the UNDG ExCom heads on the most appropriate way forward to ensure increased direct access to audits findings for Board Members.

## 6. UNDP programme and office disbursements in DPRK

Different media references have been made on the total size of UNDP's programme and office expenditure in DPRK, some widely exaggerated. On the basis of data that have been provided to date we can say that over the period of the past ten years the average of annual UNDP disbursement has been around \$3.6 million per year. This is, on average, approximately 50% less than the ceilings approved by the Board which further indicates the high complexity of operating in DPRK.



As of 21 January 2007 the following breakdown was available:

**UNDP DPR KOREA Country Programmes**

Programme Cycle	Approved Programme (in US\$000)	Actual Disbursements (in US\$000)
1997-2000	17.344	15.959
2001-2004	19.783	6.696
2005-2006	22.220	6.451*
	<b>Total: \$59.347 m Board Approved Programmes</b>	<b>Total Amount delivered \$29.106 m</b>

\* Preliminary figures in 2006: budgets are not yet closed

**UNDP DPRK Programme and Office Support Budget Disbursements\***

	Total Programme	Office Support Budget	Total
1997	5,895,584	**	5,895,584
1998	6,374,049	773,042	7,147,091
1999	1,596,522	815,255	2,411,777
2000	2,093,103	500,339	2,593,442
2001	1,514,645	447,930	1,962,575
2002	1,829,752	667,170	2,496,922
2003	2,259,861	732,680	2,992,541
2004	1,092,000	903,000	1,995,000
2005	3,169,000	426,000	3,595,000
2006 EST	3,282,000	1,046,000	4,328,000
<b>Total</b>	<b>29,106,516</b>	<b>6,311,416</b>	<b>35,417,932</b>

\*includes disbursements outside of DPRK.

\*\* full data still to be confirmed: assumed to be approximately the same magnitude as 1998

**7. The way forward**

In order to fully review our operations in DPRK we would welcome a full independent and external audit of the current programme in DPRK within the overall framework and possibly in addition to what will be outlined by Secretary-General Ban Ki-moon regarding the Funds and Programmes more generally. We would like to suggest that the Executive Board provides us with the necessary guidance on the modalities of such an audit at the most appropriate time.

22 January 2007