

2024

POTENTIAL THREAT MAPPING UPDATE REPORT

Proliferation Financing of Weapons of Mass Destruction



Indonesian Financial Transaction Reports and Analysis Center
Pusat Pelaporan dan Analisis Transaksi Keuangan

EXECUTIVE SUMMARY

Proliferation Financing of Weapons of Mass Destruction, as defined by the Financial Action Task Force (FATF) in 2010, "Proliferation financing refers to: the act of providing funds or financial services which are used, in whole or in part, for the manufacture, acquisition, possession, development, export, trans-shipment, brokering, transport, transfer, stockpiling or use of nuclear, chemical or biological weapons and their means of delivery and related materials (including both technologies and dual-use goods used for non-legitimate purposes), in contravention of national laws or, where applicable, international obligations".

In 2021, Indonesia conducted a national risk assessment on Proliferation Financing of WMD (PF WMD), involving relevant ministries and agencies, reporting entity associations, financial service providers, as well as other goods and/or services providers and professional associations. The national risk assessment on PF WMD identified that Indonesia faces potential threats arising from trade transactions with countries designated under the United Nations Security Council (UNSC) Resolutions. Additionally, another potential threat arises from bank accounts held by foreign nationals from high-risk jurisdictions, as designated by UNSC Resolutions, who no longer reside or work in Indonesia, and which may subsequently be misused by other parties.

To update its threat landscape and enhance its understanding of PPSPM threats, Indonesia conducted an update of its PF WMD threat mapping, building upon the understanding of PF WMD threats established since 2021. This update involved relevant authorities and incorporated data and information obtained from ministries and agencies, financial service providers, as well as DNFPBs. Based on this data and information, the PF WMD threat landscape in Indonesia remains unchanged, with risks primarily originating from trade transactions with the Democratic People's Republic of Korea (DPRK) and Iran. However, trade transactions between Indonesia and DPRK/Iran are limited to household equipment and food products. Meanwhile, the risk associated with bank accounts held by DPRK and Iranian nationals has declined. This decline is attributed to de-risking measures undertaken by the majority of financial service providers, including business relationship restrictions, refusal to establish

business relationships, or the termination of existing business relationships with DPRK and Iranian nationals.

Furthermore, transactions involving DNFBPs indicate that, in 2023, only one transaction report (LT) was recorded concerning DPRK and Iranian nationals, with a total transaction value of IDR 586,287,000 (USD 37,889). Meanwhile, in 2024, only four transaction reports (LT) were recorded, with a total transaction value of IDR 2,492,600,000 (USD 152,593). The number and value of transaction reports related to DPRK and Iran account for less than 1% of the total number and value of transaction reports. This demonstrates that the banking sector faces a higher level of threat compared to the goods and/or services sector.

BACKGROUND

The proliferation financing of weapons of mass destruction (PF WMD) pose a significant threat to international security and the global financial system. The United Nations Security Council (UNSC) and the international community, including the Financial Action Task Force (FATF), have placed substantial emphasis on the risks associated with PFWMD, particularly those posed by DPRK. The threat landscape of PFWMD continues to evolve in response to technological advancements and shifting global dynamics.

Given that the last PFWMD risk assessment was conducted in 2020–2021, Indonesia has determined the necessity of updating its PFWMD threat landscape. Consequently, the 2024 PF WMD Threat Mapping Update will be conducted to ensure a comprehensive and current understanding of potential threats.

OBJECTIVE

The objective of the 2024 PF WMD Threat Mapping Update is to update the mapping of potential PFWMD threats and enhance the understanding of relevant ministries and agencies, financial service providers, as well as other goods and/or service providers and professional entities regarding Indonesia's current exposure to the financing of weapons of mass destruction proliferation.

SCOPE

The Financial Action Task Force (FATF) (2010) defines Proliferation Financing of Weapons of Mass Destruction (WMD Financing) as:

"'Proliferation financing' refers to: the act of providing funds or financial services which are used, in whole or in part, for the manufacture, acquisition, possession, development, export, trans-shipment, brokering, transport, transfer, stockpiling or use of nuclear, chemical or biological weapons and their means of delivery and related materials (including both technologies and dual-use goods used for non-legitimate purposes), in contravention of national laws or, where applicable, international obligations."

FATF mandates that countries implement targeted financial sanctions without delay against individuals and entities listed under:

- A. United Nations Security Council (UNSC) Resolution 1718 (2006) and its subsequent resolutions (North Korea), either as designated in the annexes to relevant UNSC resolutions or by the UNSC 1718 Sanctions Committee; and
- B. United Nations Security Council (UNSC) Resolution 2231 (2015) and its future replacement resolutions (Iran), as designated by the UNSC.

Joshi, Dall, and Dolzikova (2019) define Proliferation Financing of WMD as follows:

1. Proliferation financing is when a person
 - a) makes available an asset; or
 - b) provides a financial service; or
 - c) conducts a financial transaction; and

the person [knows that, or is reckless as to whether,] the asset, financial service or financial transaction is intended to, in whole or in part, facilitate an activity specified in Subsection (2) regardless of whether the specified activity occurs or is attempted.

2. The specified activities are:

- a) the manufacture, production, possession, acquisition, stockpiling, storage, development, transportation, sale, supply, transfer, export, transshipment or use of:
 - 1. nuclear weapons; or
 - 2. chemical weapons; or
 - 3. biological weapons; or
 - 4. materials related to nuclear weapons, chemical weapons or biological weapons that are prescribed by Regulations; or
- b) the provision of technical training, advice, service, brokering or assistance related to any of the activities in Paragraph (a).

Nuclear, chemical and biological weapons are all defined terms in RUSI's model law and include their means of delivery. Financial transaction is defined in the model law and includes the physical transfer of an asset. Note that when the definition is applied in the context of domestic legislation, it should exclude lawful proliferation activity, for example, the activities of current nuclear states as defined under the Treaty on the Non-Proliferation of Nuclear Weapons. Note also that the mental elements of knowledge and recklessness are included in square brackets in the event that jurisdictions wish to convert the definition into a PF offence provision.

There are three primary categories of activities that constitute WMD financing threats: (1) Financial products and services directly linked to the trade of proliferation-sensitive goods; (2) Revenue-generating activities (both legitimate and illicit); and (3) Financial infrastructure and corporate entities that facilitate the first two categories (Joshi, Dall, and Dolzikova, 2019).

Arnold and Salisbury (2024) state that both state and non-state actors contribute to WMD financing risks. States engaged in developing or acquiring WMDs often utilize global procurement networks to obtain goods and technologies for WMD programs, circumventing sanctions and export controls. Non-state actors, due to their limited ability to establish the necessary infrastructure, tend to seek dual-use goods and services through open markets. The state actors identified in Arnold and Salisbury

(2024) include North Korea and Iran. However, while the proliferation activities of North Korea and Iran have garnered significant attention over the past two decades, other states have also illicitly procured proliferation-sensitive goods and technologies, posing potentially greater risks to certain jurisdictions.

MATERIALITY LANDSCAPE

According to the Financial Action Task Force (FATF) (2021), a threat refers to designated persons and entities that have previously caused or have the potential to evade, violate, or exploit deficiencies in the implementation of targeted financial sanctions against Proliferation Financing of Weapons of Mass Destruction in the past, present, or future. Such threats may also arise from individuals or entities acting on behalf of or for the benefit of persons or entities listed under Proliferation Financing of WMD sanctions lists.

FATF (2021) further states that designated persons and entities continue to seek new methods to circumvent targeted financial sanctions, regardless of their geographic proximity to Proliferation Financing of WMD-prone countries (such as North Korea and Iran). For instance, they may structure indirect financial transactions and/or shipments, bypassing jurisdictions with weak AML/CFT/WMD financing controls. According to Arnold and Salisbury (2024), a jurisdiction does not necessarily have to be an exporter of proliferation-sensitive goods and technologies or dual-use items to be exposed to Proliferation Financing of WMD risks. Instead, intermediary networks, transshipment points, shipping and logistics services, and financial services within a jurisdiction may be exploited for proliferation-related activities.

Indonesia shares a border with the South China Sea, one of the world's busiest maritime routes, through which over USD 5 trillion worth of cargo and approximately 50% of the world's oil tankers transit annually. However, Indonesia is neither an international financial center nor a hub for corporate formation and registration. It is a middle-income country with an open economy and a well-diversified financial sector, where the banking sector remains dominant, accounting for 78% of total financial sector assets. Additionally, Indonesia has an active civil society sector, engaged in various activities (FATF, 2023).

As outlined, state actors in PFWMD include North Korea (DPRK) and Iran. Accordingly, this threat analysis will focus on these two countries. Indonesia is

exposed to PFWMD risks due to its diplomatic and trade relations with North Korea and Iran. The materiality landscape is mapped using export and import data between Indonesia, DPRK, and Iran, as presented in Tables 1 to 3 below.

Table 1: Comparison of Export Values from DPRK and Iran to Indonesia Against Indonesia's Total Imports in 2023 and 2024 (in USD)

Year	Export Value in 2023	Export Value in 2024
Exports from DPRK to Indonesia	651,436	2,842,719
Exports from Iran to Indonesia	11,721,914	11,050,656
Total Imports of Indonesia	221,885,700,000	233,559,500,000
DPRK/Total Imports	0.00029%	0.00122%
Iran/Total Imports	0.00528%	0.00473%

Table 2: Comparison of Export Values from North Korea and Iran to Indonesia Against Indonesia's Total Exports in 2023 and 2024 (in USD)

Year	Import Value in 2023	Import Value in 2024
DPRK's Imports from Indonesia	156,395.32	57,753.13
Iran's Imports from Indonesia	194,459,345	206,209,985
Total Exports of Indonesia	258,774,300,000	254,703,400,000
DPRK/Total	0.00006%	0.00002%
Iran/Total	0.07517%	0.07790%

Based on Data from the Directorate General of Customs and Excise, Ministry of Finance, the Three Main Export and Import Commodities Between DPRK, Iran, and Indonesia are :

Table 3: Top Three Export and Import Commodities Between North Korea, Iran, and Indonesia

Country	Imports from Indonesia	Exports to Indonesia
North Korea	1. Refrigerators 2. Medical equipment 3. Pumps	1. Synthetic fabric materials 2. Zinc-based goods 3. Machine parts
Iran	1. Coconuts and cashew nuts 2. Bicycle parts and accessories 3. Motorcycles	4. Fruits 5. Crude oil and its derivatives 6. Turbines

In relation to PF WMD activities, this mapping focuses on DPRK's imports from Indonesia (or Indonesia's export value to North Korea), which experienced a significant decline in 2024, decreasing by USD 57,753.13 from USD 156,395.32 in

2023. Despite this decline, an increasing trend of export activities carried out by DPRK administrative staff in Indonesia has been identified since late 2024, coinciding with the placement of several new DPRK administrative staff members in Indonesia.

Based on the materiality landscape mapping presented in the tables above, it is evident that the types of goods exported from Indonesia to DPRK and Iran are predominantly household equipment and food products. Furthermore, the total export and import values between Indonesia and these two countries remain negligible, accounting for less than 1% of Indonesia's overall export and import transactions with countries worldwide.

From the data presented above, it is evident that there are no dual-use goods among the primary export and import commodities traded between Indonesia and the DPRK or Iran. Furthermore, as a member of the World Customs Organization (WCO), Indonesia has demonstrated its commitment to non-proliferation and trade control in accordance with the United Nations (UN) regulations, the Nuclear Non-Proliferation Treaty (NPT), the Chemical Weapons Convention (CWC), and the Biological Weapons Convention (BWC). This commitment has been publicly outlined in the Strategic Trade Control Enforcement (STCE) document published in 2023.

The materiality landscape mapping of PF WMD activities in Indonesia also includes an assessment of IFTI from and to Indonesia, covering both the banking and non-banking sectors. The number and value of IFTI reports can be found in Table 4 below.

Table 4: Comparison of the Number and Value of International Funds Transfer Instruction (IFTI) related to High-Risk Proliferation Financing of WMD Jurisdictions with the Total Number and Value of IFTIs in 2023 and 2024

Year	2023	2024
Number of IFTIs related to High-Risk Proliferation Financing of WMD Jurisdictions	9	25
Total Number of IFTIs	26,953,450	27,693,760
Proportion of IFTIs Related to High-Risk Proliferation Financing of WMD Jurisdictions to Total IFTIs	0.00086%	0.00305%

Value of IFTIs Related to High-Risk Proliferation Financing of WMD Jurisdictions	846,208,248	27,693,760
Total Value of IFTIs	11,549,041,188,599,500	2,708,581,855,486,700
Proportion of IFTIs Value Related to High-Risk Proliferation Financing of WMD Jurisdictions to Total IFTI Value	0.00002%	0.00102%

Table 4 above illustrates that fund transfer transactions to and from DPRK and Iran remain minimal compared to the total volume of fund transfers with other countries. This is evident from the number and total value of IFTI involving DPRK and Iran, in contrast to the total number of IFTI recorded for the years 2023 and 2024. As shown in Table 4, in 2023, only 9 LTKL transactions related to DPRK and Iran were reported out of a total of 26,963,450 LTKL received by PPATK, with a total transaction value of IDR 846,208,248. A similar trend was observed in 2024, where only 25 LTKL transactions related to DPRK and Iran were reported out of 27,693,760 total LTKL, with a total transaction value of IDR 27,693,760. The data presented in Table 4 aligns with export and import data involving DPRK and Iran, as outlined in Tables 1 and 2.

Based on the above data, the materiality landscape of trade and financial transactions between Indonesia, DPRK, and Iran remains insignificant, accounting for less than 1% of Indonesia's overall trade and financial transactions with other countries. This indicates that the potential PF WMD threat in Indonesia through trade and financial transactions is at a low level.

Despite the low-level PFWMD threat, relevant ministries and agencies, in coordination with reporting entities, continue to implement risk mitigation measures for identified potential threats. These threats include the potential exploitation of Indonesian nationals and Indonesian companies to facilitate the receipt of funds from abroad owned by DPRK nationals, process payments for goods purchased for export, search and purchase items for export, and manage containerized cargo and customs clearance services. These mitigation efforts are being carried out through enhanced implementation of AML/CFT regulations for beneficial owners, as well as the

application of enhanced due diligence (EDD) and/or countermeasures for customers and beneficial owners linked to DPRK and Iran.

UPDATE ON INDONESIA'S PFWMD THREAT MAPPING

The update on Indonesia's PFWMD threat mapping is assessed based on Suspicious Transaction Reports, as detailed in Table 5 below.

Table 5: Comparison of Suspicious Transaction Reports (STRs) Related to High-Risk Proliferation Financing of WMD Jurisdictions and the Total Number of STRs in 2023 and 2024 (In IDR)

Year	2023	2024
Number of Suspicious Transaction Reports Related to High-Risk PFWMD Countries	5	7
Total Number of STRs	130,472	136,546
Proportion of STRs Related to High-Risk Proliferation Financing of WMD Jurisdictions to Total STRs	0.00383%	0.00513%

Based on the mapping of Suspicious Transaction Reports (STR) related to DPRK and Iran, as reported by FIs and DNFBPs, it was found that in 2023, there were 5 STR out of 130,472 total STR, while in 2024, there were 7 STR out of 136,546 total STR. The basis for these LTKM reports was the indication of a connection between the service users and individuals/entities listed on the OFAC sanctions list. This data indicates that STR related to DPRK and Iran account for less than 1% of the total STR.

The low number of STR reported by FIs and DNFBPs is primarily due to de-risking measures implemented by the majority of financial institutions as a risk mitigation strategy against PF WMD. These de-risking efforts include restricting business relationships, rejecting business relationships, or terminating business relationships with DPRK and Iranian nationals.

The banking sector remains the dominant financial sector, accounting for 78% of total financial sector assets, while 22% of transactions are conducted through the non-bank financial sector, other goods and/or service providers, and professions (DNFBPs). The PFWMD threat mapping for the DNFBPs is conducted through transaction reports, which must be submitted by DNFBPs for transactions involving service users in Indonesian rupiah or foreign currency with a minimum value of IDR 500,000,000 (five

hundred million rupiah) or its equivalent. The statistics on Transaction Report (TR) reports submitted by DNFBPs to PPATK can be found in Table 6 below.

Table 6: Comparison of the Number and Value of Transaction Reports (TRs) Related to High-Risk Proliferation Financing of WMD Jurisdictions with the Total Number and Value of TRs in 2023 and 2024

Year	2023	2024
Number of TRs Related to High-Risk Proliferation Financing of WMD Jurisdictions	1	4
Total Number of TRs	113,442	131,193
Proportion of TRs Related to High-Risk Proliferation Financing of WMD Jurisdictions to Total TRs	0.00088%	0.00305%
Number of TRs Related to Foreign Jurisdictions	201	290
Proportion of TRs Related to High-Risk Proliferation Financing of WMD Jurisdictions to TRs Related to Foreign Jurisdictions	0.49751%	1.37931%
Value of TRs Related to High-Risk Proliferation Financing of WMD Jurisdictions	586,287,000	2,492,600,000
Total Value of TRs	3,499,195,664,549,300	2,511,947,939,494,900
Proportion of TR Value Related to High-Risk Proliferation Financing of WMD Jurisdictions to Total TR Value	0.00002%	0.00010%
Value of TRs Related to Foreign Jurisdictions	260,767,370,493	443,017,525,655
Proportion of TR Value Related to High-Risk Proliferation Financing of WMD Jurisdictions to TRs Related to Foreign Jurisdictions	0.22438%	0.56246%

Table 6 illustrates that the number of transactions involving DNFBPs reported to PPATK in 2023 and 2024 amounted to 113,442 and 131,193 transactions, respectively. Based on the threat mapping analysis, it was identified that transactions involving DPRK and Iranian nationals were minimal. In 2023, only one (1) TR was reported, with a total transaction value of IDR 586,287,000 (USD 36,563). In 2024, the number increased to four (4) TR, with a total transaction value of IDR 2,492,600,000 (USD 155,545). The number and value of TR transactions related to DPRK and Iran account for less than 1% of the total LT transactions and their respective values, reinforcing the low level of PFWMD threat in Indonesia through the DNFBPs.

CONCLUSION

In 2021, Indonesia conducted a National Risk Assessment (NRA) on Proliferation Financing of Weapons of Mass Destruction (PFWMD), involving relevant ministries and agencies, reporting entities' associations, financial service providers, as well as other goods and/or service providers and professionals. The NRA on PFWMD identified potential threats arising from trade transactions with countries listed under the United Nations Security Council (UNSC) Resolutions. Additionally, another potential threat originates from foreign nationals' accounts belonging to individuals from high-risk countries, as designated by the UNSC Resolutions, who no longer reside or work in Indonesia, and which are subsequently misused by other parties.

To update the PFWMD threat map, Indonesia conducted an update of PFWMD threats, incorporating data and information from relevant ministries and agencies, financial service providers, as well as other goods and/or service providers and professionals. Based on the collected data and information, the PFWMD threat map in Indonesia remains unchanged, with threats predominantly linked to trade transactions with the Democratic People's Republic of Korea (DPRK) and Iran. However, trade transactions between Indonesia and these countries are limited to household equipment and food products.

Furthermore, the banking sector remains the dominant financial sector, accounting for 78% of total financial sector assets, while 22% of transactions are conducted through non-bank financial service providers and DNFBPs. The threat posed by accounts held by DPRK and Iranian nationals has significantly declined due to de-risking measures implemented by the majority of FIs, including business relationship restrictions,

refusals to establish business relationships, or the termination of existing business relationships with DPRK and Iranian nationals. Additionally, transactions involving other goods and/or service providers have decreased. Transaction reports indicate that in 2023, there was only one (1) transaction report (TR) involving DPRK and Iranian nationals, with a total transaction value of IDR 586,287,000 (USD (USD 37,889). In 2024, only four (4) TRs were reported, with a total transaction value of IDR 2,492,600,000 (USD 152,593). The number and value of TRs related to DPRK and Iran constitute less than 1% of the total TRs reported. This indicates that the potential threat in the banking sector remains higher than DNFPBs.

Overall, the analysis and evaluation of structural factors affecting Indonesia's threat level related to PFWMD—comprising financial transaction data, Indonesia's trade activities with PFWMD-risk countries, and case studies indicating PFWMD during the 2023-2024 period—demonstrate that Indonesia faces a low direct PFWMD threat. However, Indonesian authorities have identified and implemented controls over schemes and methods employed by DPRK entities to conduct exports by leveraging Indonesian nationals and/or Indonesian companies to facilitate the receipt of foreign funds belonging to DPRK nationals through FIs.

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