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Introduction to Proliferation Financing

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Outline

- Defining Proliferation Financing
- International Standards and Obligations on CPF





Defining Proliferation Financing

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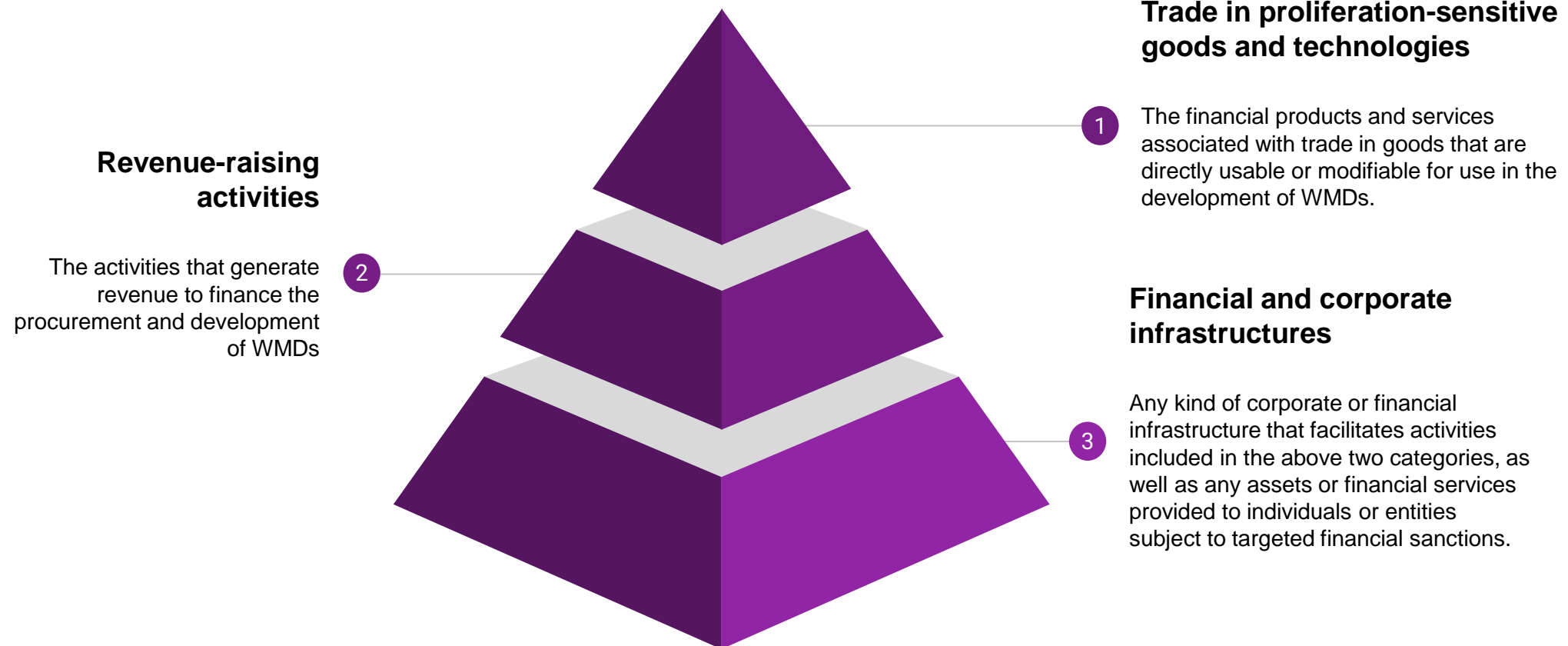
FATF definition (2010):

The act of providing funds or financial services that 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, biological weapons and their means of delivery and related materials.



Defining Proliferation Financing

PF is so much more than the exchange of funds for WMD...



Trade in Proliferation-Sensitive Goods and Technologies

- PF activities in this category may include payments for:
 - Procurement of dual-use or proliferation-sensitive goods/technology/components (or below-threshold);
 - Sourcing of raw materials for WMD;
 - Sourcing of technological expertise relevant to WMD.

RISK: Countries may be exposed if they host nuclear programmes (military or civilian), nuclear research reactors/facilities, or industries that produce or use dual-use, proliferation-sensitive or high-tech goods.

Revenue-Raising Activities

- Activities that fall into this category can be both inherently illicit or otherwise licit (outside the North Korean context).
- Activities in this category may include:

Examples of **illicit** profit-generating activities

Wildlife trafficking	Labour exploitation	Arms sales*
Cybercrime	Smuggling of goods	Counterfeiting and fraud

Examples of **licit** profit-generating activities

Operating restaurants	Building and construction	Export of food and textiles
Trade in luxury goods	Sale of minerals and natural resources	IT services

RISK: Countries with historical and/or political ties to North Korea (e.g., diplomatic relations) may be at a higher risk. Countries that host certain industries or resources that may be of interest to North Korea for fundraising.

Financial and Corporate Infrastructures

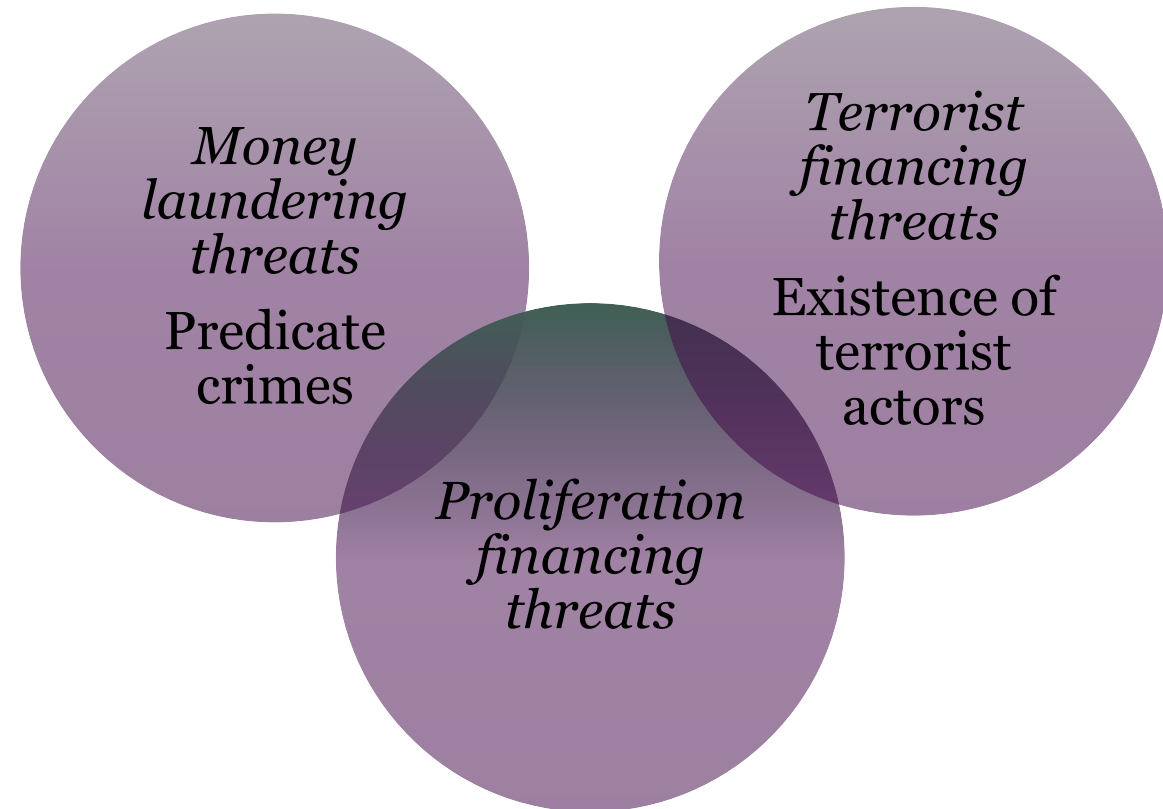
- Activities in this category may resemble and rely on other forms of financial crime and may include:
 - Exploitation of corporate services providers (e.g., shell/front companies)
 - Use of local banks to access the financial system vs. international banks to move funds
 - Use of diplomats and embassies to access bank accounts abroad
 - Use of third country financial institutions
 - Use of joint ventures and use of third country intermediaries
 - Bulk cash/gold smuggling and barter systems
 - Aliases and other falsification of corporate and financial documents
 - Targeting regions/institutions with weak monitoring and oversight (regulatory arbitrage)

RISK: Countries may be exposed if they are perceived as having poor corporate transparency, or weak monitoring and oversight of financial institutions or corporate service providers.

Defining Proliferation Financing

There is some cross-over between ML, TF and PF typologies, as well as in the measures governments and businesses can take to counter them.

However, there are key differences and counter-measures need to be tailored.





International Obligations and Standards on CPF

UNSC Obligations on Countering PF

- UN Security Council Resolution 1540 PF References
 - Requires member states to prevent PF by non-state actors (OP 2)
 - Requires members states to prevent the provision of funds/services that support proliferation-related exports (OP 3d)
- Country-specific regimes include PF-related obligations
 - Targeted Financial Sanctions
 - Freeze funds and assets without delay of entities engaging in or supporting proliferation activity; or those acting on their behalf, owned or controlled by them, or assisting them)
 - Other Financial Prohibitions
 - Controls on financial institutions, prohibitions on financial support, controls on diplomats, controls on vessels and aircraft, controls on joint ventures, prohibitions on transfers of gold and cash)
 - Activity-based Prohibitions
 - Trade in certain goods and revenue-generating activities

FATF Standards on Countering PF

- The intention is that countries will introduce appropriate legislation and pass down expectations to financial institutions and DNFBPs in their jurisdiction.
- **Recommendation 1:** Requires countries to identify, assess, and understand their PF risks, take commensurate action to mitigate these risks, and require FIs and DNFBPs to do the same.
- **Recommendation 2:** Requires effective national cooperation and coordination mechanisms to combat PF.
- **Recommendation 7:** Requires implementation of UNSCR TFSs on PF (i.e. asset freezes).
- **Recommendation 15:** Requires VASPs to be regulated for AML/CFT purposes
- **Immediate Outcome 1:** Actions are coordinated domestically to counter PF.
- **Immediate Outcome 11:** Requires preventing persons and entities involved in WMD proliferation from raising, moving & using funds.