AMLIH

LICIT AND ILLICIT CASH FLOWS IN THE BALTIC STATES

A STRATEGIC ASSESSMENT

2023

REPUBLIC OF ESTONIA
FINANCIAL INTELLIGENCE UNIT

Republic of Latvia
Financial intelligence Unit

FINANSINIŲ NUSIKALTIMŲ
TYRIMO TARNYBA

Executive Summary

1.1.1. Cash is a primary vehicle for criminal activity. This assessment analyses the movement of licit and illicit cash between and among the Baltic states of Estonia, Latvia, and Lithuania through the period of 2019–2022. The assessment develops an analytical approach that incorporates macro-level central bank emission data, cross-border cash declaration data, and data received by Baltic Financial Intelligence Units (FIUs) from the reports of the AML/CFT obliged entities. A comparison of the regulatory framework for reporting rules contextualizes the assessment.

1.1.2. The assessment finds that while the general risk exposure of the three Baltic states is similar, net cash movement differs significantly. At a macro-level, initial analysis indicates that the velocity of cash flows out of Estonia have increased over time. However, cash flows into Latvia, observed a trend reversal beginning the year 2020. The flow of cash out of Lithuania increased significantly over the analysed period. Banknote denomination proportion analysis reveals anomalies for the EUR 100 note, which flows into Estonia and Latvia from abroad, while flowing out of Lithuania.

1.1.3. Baltic states are transit countries. Customs data highlights that the Baltic states are rarely the initial origin or destination of the cash entering across Baltic borders. Until the restrictions imposed by the Covid-19 crisis, a common origin of cash entering both Estonia and Latvia was from Russia. The cash declaration trends suggest that unlike Estonia and Lithuania, much of the cash entering Latvia was intended to stay there. However, cash flows became significantly smaller after the travel restrictions imposed after Covid-19 and the Russian invasion of Ukraine in early 2022. For Lithuania, Kazakhstan and Belarus remain the highest source of funds, but, together with Estonia, and increasingly Latvia, the United Kingdom is the uppermost destination country.

1.1.4. Differences in suspicious transaction reporting (STR) regulations across the Baltic states, contribute to an inconsistent availability of cash-related reporting information at local levels. A comparison of STRs, cash threshold reports (CTRs) and other types of report indicates that there is a growing risk exposure between the Baltic states, and that illicit cash may be moving among the three jurisdictions utilizing cross-Baltic criminal networks. While the restrictions imposed by the Covid-19 crisis and war against Ukraine impacted reports received by the Baltic FIUs, inter-Baltic reporting remained relatively stable.

1.1.5. The high amount of cash movement and cash-related reporting aligns with the general risk exposure of the Baltic states. The informal economies in the Baltic states enable money laundering, especially for the purpose of tax evasion. However, more sophisticated money laundering structures may also persist in the Baltic states, which launder illicit cash through more complex schemes involving real estate purchases, currency exchanges, shell companies, or other methods.

1.1.6. The assessment concludes with several recommendations. Though digital payments are on the rise, cash remains an integral part of the Baltic, and global economies. However, cash remains a highly elusive subject of investigation, with little available data. Harmonization of data access points is a high priority, especially the reporting rules between FIUs.

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Introduction

1.1.7. Cash[1] is a primary vehicle for illicit finance in the European Union (EU).[2] It is a bearer negotiable instrument that is anonymous, and almost impossible to trace.[3] It leaves no details on the origin of proceeds, or the beneficiary of the exchange.[4] Cash is also difficult to measure in both the legal and illicit economy, depending largely on indirect proxies like emission data. For these reasons it is unsurprising that the Third European Commission (EC) supranational risk assessment (SNRA) emphasizes that the criminal economy remains overwhelmingly cash based.[5] The criminal economy also spurs what is referred to as the "paradox of cash" - while retail cash transactions have declined, the demand for banknotes in the EU has continued to increase.[6] This assessment aims to develop a better understanding of the flora of illicit cash by studying its movement across the borders of three Baltic states – Estonia, Latvia, and Lithuania.

1.1.8. This assessment aims to reach three objectives. First, it develops an analytical framework to provide an overarching approach to understanding the cross-border factors in the movement of cash. Second, it proposes a logic to the movement and turnover of cash into, out of, and between the three Baltic states via strategic, tactical, and operational discussion. Third, it aims to offer insight as reference material for discussions on broader domestic and EU money policy, especially considering the incoming AML package[7] and the discussions on the Digital euro.

1.1.9. Understanding the movement and turnover of cash across borders is critical to identifying, preventing, and combatting money laundering. The cross-border movement of cash is one of the main mediums through which it enters a domestic economy, alongside central bank emissions or direct withdrawals of cash. However, what we term the broader "cash knowledge gap" – a lack of available information on the use of cash for licit and illicit purposes – limits the amount of strategic, tactical, and operational data where cash is involved.[8] The cash knowledge gap stems from cash being a value of storage that can easily be hidden from the banking system and other financial institutions – preventing conventional ways of collecting information by circumventing client and transaction identification requirements, government registries, or other points of data collection. Insight into the cross-border movement of cash enables

[1] Under the terms of Article 2(2) of Regulation No. 1889/2005, "cash" refers to:
"a. bearer-negotiable instruments including monetary instruments in bearer form such as travellers cheques, negotiable instruments (including cheques, promissory notes and money orders) that are either in bearer form, endorsed without restriction, made out to a fictitious payee, or otherwise in such form that title thereto passes upon delivery and incomplete instruments (including cheques, promissory notes and money orders) signed, but with the payee's name omitted,
b. currency (banknotes and coins that are in circulation as a medium of exchange)."

[2] Report from the Commission to the European Parliament and the Council on the assessment of the risk of money laundering and terrorist financing affecting the internal market and relating to cross-border activities. Available at: https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52022DC0554

[3] Riccardi M., Levi M., Cash Crime and Anti-Money Laundering, in *The Palgrave Handbook of Criminal and Terrorism Financing Law*, edited by King, C., et al., 2016

[4] Ibid.

[5] Supra note 2.

[6] The use of cash changed drastically during the Covid-19 Pandemic. See "The paradox of banknotes: understanding the demand for cash beyond transactional use", ECB Economic Bulletin, Issue 2/2021. Also, "Cash still king in times of Covid-19", Keynote speech by Fabio Panetta

[7] The AML Packages is the European Commission's initiative encompassing three legislative proposals aimed to strengthen the EU's AML/CFT rules. The package consists of: (1) the EU "single rulebook" Regulation, which contains provisions on conducting due diligence on customers, transparency of beneficial owners and the use of anonymous instruments, such as crypto-assets, and new entities, such as crowdfunding platforms; (2) the 6th Anti-Money Laundering Directive, which contains national provisions on supervision of FIUs, as well as on access for competent authorities to necessary and reliable information; (3) The regulation establishing the European Anti-Money Laundering Authority. See European Commission, Anti-money laundering and countering the financing of terrorism legislative package. https://finance.ec.europa.eu/publications/anti-money-laundering-and-countering-financing-terrorism-legislative-package_en

[8] This gap was emphasized by a 2015 Europol report. See EUROPOL, "Why is Cash Still King?", 2015. Available at: https://www.europol.europa.eu/cms/sites/default/files/documents/europolcik%20%281%29.pdf

authorities to better identify illicit cash trends and typologies, improving overall financial investigation outcomes and compliance controls designed to prevent money laundering.

1.1.10. Filling the cash knowledge gap has broad importance. Knowing the trends of cash movement, and its possible catalysts bolsters preventative resource allotment and capacity. Situating the role of illicit cash domestically provides authorities with a better grasp of the proportion and context in which cash is used for placement, layering, and integration into the licit economy. Cash is also in close proximity to the informal economy and enables variety of other predicate crimes.[9] A more in-depth understanding of cash flows thus indirectly supports a variety of crime-fighting efforts beyond anti-money laundering, countering the financing of terrorism and proliferation of weapons of mass destruction (AML/CFT/CFP hereafter referred to as AML/CFT). Lastly, the understanding of typologies, indicators, and trends related to illicit cash use and movement are critical to the success of interinstitutional collaboration domestically and internationally, as well as financial analysis, and the successful conclusion of criminal and forfeiture proceedings.

1.1.11. The importance of filling the cash knowledge gap is also related to broader cash controls and policy. There are three general cash policy levers for public authorities: setting maximum amounts of cash purchases, limiting cross-border transfers of cash, and cutting the denominations in circulation. This research supports these levers by adding insight from the monitoring mechanisms available specifically to FIUs: STRs and CTRs. Depending on jurisdictional rules and effectiveness, a well-functioning STRs and CTRs regime can provide a consistent indication of cash use geographically and across subject sectors.

1.1.12. Overall, the assessment suggests several findings. First, cash remains a critical component to crime, and the demand for cash in the Baltic states is also high. Second, while the Baltic states are closely located and are relatively homogenous economies, cash movement tendencies are notably different in each state. The origin of inflow and outflow destinations between the countries varies greatly, without a very numerically strong inter-Baltic link. Third, though cash flows between the Baltic states may not be responsible for the presence of most cash in the economy, certain predicate crime and money laundering typologies utilize the different legal regimes of all three countries. This is especially prominent within the activity of the Baltic informal economies. Fourth, the Baltic states are susceptible to a degree of legal arbitrage. Significant differences in reporting rules and cash restrictions may allow criminals to forum shop.

1.1.13. A few recommendations are provided at the end of the assessment. Harmonization of rules should be a top priority, especially regarding cash reporting or utilization. The cash limits in the upcoming AML package are an important step, for example, by setting up a EUR 10 000 cash payment limit within the EU - but deeper harmonization will be required in ensuring that cash is properly and equally represented in STRs.[10] While there are significant differences in legal frameworks, especially regarding reporting rules for AML obliged entities, legal arbitrage will remain a risk where the weakest link of the chain proliferates risk to the whole EU. It is also increasingly important for authorities like FIUs to be able to access data from other stakeholders electronically and in an automated way. Without access to structured data, the cash gap will remain large. Lastly, cash remains elusive and is physically difficult to monitor, making it innately tied to money laundering and terrorist financing (ML/TF) risks – reducing access to cash in the form of encouraging digital payments or even CBDC may significantly reduce member states' vulnerabilities.

1.1.14. The assessment continues as follows. Section One evaluates the cash emissions and intake data of the European Central Bank (ECB) to develop an overarching picture of cash among the Baltic states. Section Two is a comparison of regulatory frameworks to assert gaps that may allow regulatory arbitrage by criminals. Section Three is an

[9] The informal economy is also referred to as the shadow or underground economy, and refers to the set of activities that have value and would add to tax revenue and GDP if they were recorded. Supra note 2.

[10] See Proposal for a Regulation of the European Parliament and of the Council on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing, COM/2021/420 final, https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52021PC0420

investigation of the trends in the movement of cash across the Baltic states. Section Four is an analysis of CTRs and STRs received both internally and across the border by the three countries. In Section Five the assessment draws together existing typologies and tendencies together with the conclusions of the previous sections to highlight illicit tendencies. Finally, the conclusion wraps up the findings of the assessment.

Scope

1.1.15. The assessment concerns the movement and turnover of cash in the years 2019–2022 between the three Baltic states; Estonia, Latvia, and Lithuania. These years represent the entry into force of Regulation (EU) 2018/1672 which harmonizes the requirement to declare EUR 10 000 in cash on external national borders and thus ensure at least a base standardization of data. This time period also informs and allows comparison of the changes in cash dynamic during the Covid-19 pandemic as well as since the Russian invasion of Ukraine.

1.1.16. To fill the cash knowledge gap, this analytical scope of the assessment works in three consecutive layers. ECB and central bank data provide an overview of the cash inflows and outflows to the economy together with STRs. The regulatory framework provides the basis for the more in-depth analysis of typologies and case studies. Lastly, the aforementioned are aligned with typologies to create a logic for the total turnover and movement of illicit cash between the Baltic states.

Methodology

1.1.17. The assessment uses mixed methods in its research. A quantitative descriptive assessment of cash movement across the three Baltic states is performed utilizing data from the ECB, and the central banks of Estonia, Latvia, and Lithuania, with special attention being paid to outliers. Risk profile and exposure data is drawn from the national risk assessments of each participant country.

1.1.18. A qualitative comparison of the legal framework regarding the three countries is conducted, focusing on general CTR rules of obliged entities, cash-reporting rules, and the levels of liability for breaches. A qualitative approach is also used to analyse case studies from FIUs and other Baltic law enforcement experience.

1.1.19. A comparison is also conducted between CTR and STR data, drawing on additional empirical and qualitative data from other partner institutions, like the tax authority, customs, or others.

1.1.20. This assessment is based on several core assumptions regarding the participant agencies. First, that the role of participant FIUs are generally similar. Second, that each of the involved governmental agencies are effectively collecting and using the information available to them.

1. Cash in the Baltic states

1.1.21. The Baltic economies make up slightly over one percent of the total GDP of the EU.[11] They are flexible service-oriented economies with high levels of external trade that are highly integrated with the European and global market. All three economies share a variety of cash-intensive industries, like retail or the food service industry,[12] but also including construction, or gaming. Though business in most of these sectors is conducted legitimately, the use of cash makes them susceptible to illicit activities like ML/TF. These cash risks coincide with the risk profiles indicated in the national risk assessments of all three countries.[13]

1.1.22. These vulnerabilities are highlighted through the informal economies of the Baltic states. Informal economies refer to economic activities that are not sufficiently covered by formal arrangements, and can thus harbour tax evasion, and other illicit activities.[14] Studies estimate the informal economy of the three Baltic states to be between 19 and 33 percent of their respective GDP.[15] While the size of the informal economy in each of the three countries differs depending on the assessment, there is broad consensus that the informal economy sector has only grown during the analysed period.[16] The informal economy is largely enabled by cash pools, which underpins the movement cash in the Baltic countries.

1.1.23. The licit use of cash in parts of the formal economy, especially by retail consumers, has generally decreased. This has been an ongoing trend with the growth of digital payments in the past decades. The trend was accelerated by the restrictions imposed during the Covid-19 crisis, highlighted by a notable fall in cash use during the year 2020 across all three countries. However, cash is vital to the criminal economy, and a sizeable portion of an AML/CTF regime relates to cash detections.[17]

1.1.24. The analysis suggests that cash, though decreasing in use, remains linked to ML/TF. An investigation of central bank cash emissions found significantly higher inflows of cash into Latvia than its Baltic neighbours prior to 2020. On the other hand, analysis on banknote levels suggests that even during the years dominated by the Covid-19 pandemic and afterwards there were significant amounts of cash in EUR 100 note entering Latvia and Estonia, while the Lithuanian data shows even more substantial surplus of EUR 100 notes released compared to the role of Lithuanian economy in Eurosystem. Investigation of ATM deposits and withdrawals signals a disproportionate number of cross-border withdrawals among the Baltic states.

[11] Eurostat, "National accounts and GDP". Available: https://ec.europa.eu/eurostat/statistics-explained/index.php?title=National_accounts_and_GDP#Developments_for_GDP_in_the_EU:_a_rebound_in_2021_after_a_decline_in_2020.

[12] Commonly referred to by the acronym "HoReCa", encompassing the hotel, restaurant, and catering industries. Other cash intensive industries include motor vehicle retailers, car washes, art and antique dealers, auction houses, pawnshops, jewelleries, textile retail, liquor and tobacco stores, among others.

[13] See Estonian National Risk Assessment, 2021, National vulnerability, pg 15. Available at: https://www.fin.ee/en/media/5447/download, National Terrorism and Proliferation Financing Risk Assessment Report 2017-2018 (updated in July 2019) of the Republic of Latvia pg 8. Available at: https://www.fid.gov.lv/uploads/files/NEW%20WEB/Nacion%C4%81l%C4%81%20NILLTPF%20risku%20nov%C4%93rt%C4%93juma%20zi%C5%86ojuma%20kopsavilkums.pdf, Lithuanian National Risk Assessment of Money Laundering and Terrorist Financing, 2020, pg 15. Available at: https://www.fntt.lt/data/public/uploads/2020/05/final-nra_eng_v3.pdf

[14] OECD/ILO, "Definitions of informal economy, informal sector and informal employment", in *Tackling Vulnerability in the Informal Economy*, OECD Publishing, 2019, https://doi.org/10.1787/103bf23e-en.

[15] Tālis J. Putniņš, Arnis Sauka, SSE Riga, Shadow Economy Index for the Baltic countries. Available at: https://www.sseriga.edu/sites/default/files/2022-05/Brochure_Shadow_Economy_Index_2009_2021.pdf file://fs/users$/matiss.klavins/Downloads/Brochure_Shadow_Economy_Index_2009_2021.pdf and IMF, Explaining the Shadow Economy in Europe: Size, Causes and Policy Options. Available at: https://www.fm.gov.lv/lv/media/11131/download?attachment

[16] Tālis J. Putniņš, Arnis Sauka, SSE Riga, Shadow Economy Index for the Baltic countries. Available at: https://www.sseriga.edu/sites/default/files/2022-05/Brochure_Shadow_Economy_Index_2009_2021.pdf Friedrich Schneider, Research Institute of Banking and Finance, Johannes Kepler University, Development of the Shadow Economy of 36 OECD Countries. Available at: https://www.fm.gov.lv/lv/media/11125/download?attachment.

[17] Supra note 7, pg 16

1.2. Central Bank Emissions

1.2.1. The emission data from central banks offers a key datapoint on the macro-level movement of cash. As all three countries are part of the eurozone, ECB euro emission data provides high level overviews of the circulation, inflows, and outflows of cash in the 20 EU member states that have adopted the euro, including the Baltic states. The emission balance of the euro is calculated by subtracting the number of banknotes issued by eurozone central banks from the banknotes returned to them through the commercial banking system and cash collection services.[18]

1.2.2. The capital of the ECB comes from the national central banks of all eurozone member states. The national central bank shares in this capital are calculated using a capital key which reflects the respective country's share in the total population and GDP of the EU. For Estonia, Latvia and Lithuania the capital key is 0.23, 0.32 and 0.47 respectively, paralleling the differences in the sizes of their economies.[19] Therefore, it can be reasonably inferred that the role of Lithuanian economy in the Eurosystem is approximately twice as large as that of Estonia and around one and a half times larger than that of Latvia.

1.2.3. Since the euro was first adopted in 1999, more euro banknotes have been issued into circulation every year. Since 2019, however, the total euro turnover (both the deposits and withdrawals in European Central Banks) has been steadily decreasing.[20] With the rise of ECB key interest rates in mid-2022, outstanding cash holdings became more expensive relative to interest-bearing instruments, resulting in a negative emission balance in Q3 of 2022 of -36.6 bnEUR. (Figure 1) The emission balance continued to be positive for smaller denominations but has been negative for EUR 500 notes[21] and EUR 200 notes.[22] Any outliers to this broader dynamic are indicative of differences in the internal cash market.

[18] ECB, Issuance and Circulation, available at: https://www.ecb.europa.eu/euro/intro/issuance/html/index.en.html

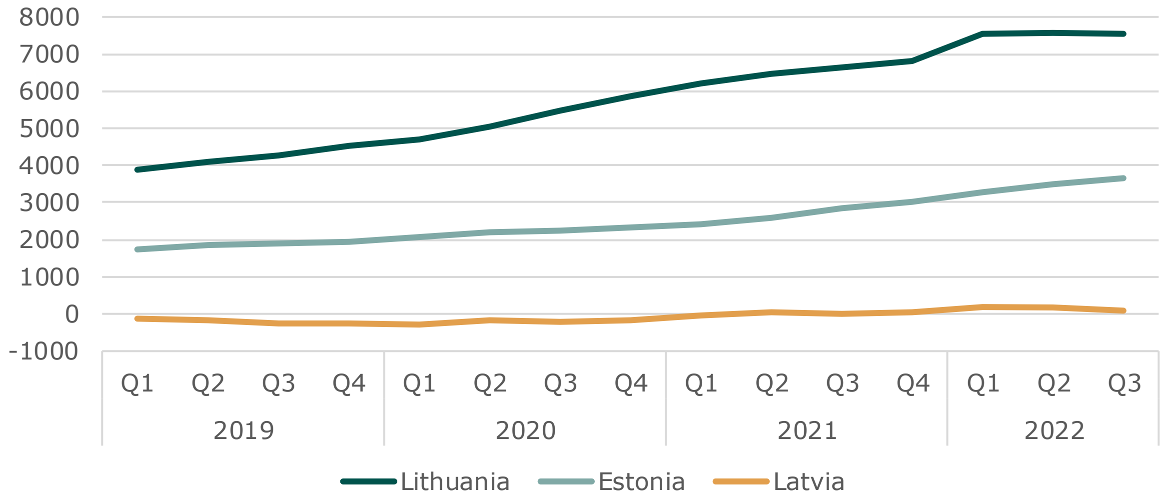
[19] A similar index is Euro system capital key, which is calculated for the euro-area national central banks. For Estonia, Latvia and Lithuania the eurosystem capital key is 0.2817, 0.3897 and 0.5788 respectively. See European Central Bank, Capital subscription. Available at: https://www.ecb.europa.eu/ecb/orga/capital/html/index.en.html

[20] In 2019, there were 1061 bnEUR worth banknotes issued in the Eurosystem and 1000 bnEUR returned. In 2020, 949 bnEUR issued and 807 bnEUR returned and in 2021 893 bnEUR issued and 783.5 bnEUR returned. ECB, "Banknotes and coins circulation." Available at: https://www.ecb.europa.eu/stats/policy_and_exchange_rates/banknotes+coins/circulation/html/index.en.html.

[21] -23.3 bnEUR (compared to -3.5b EUR in Q1 2022 and -4.0 bnEUR in Q2 2022) see European Central Bank, Banknotes and coins in circulation. Available at: https://www.ecb.europa.eu/stats/policy_and_exchange_rates/banknotes+coins/circulation/html/index.en.html.

[22] -22.2 bnEUR (compared to +14.2 bnEUR in Q1 2022 and +7.0 bnEUR in Q2 2022) see European Central Bank, Banknotes and coins in circulation. Available at: https://www.ecb.europa.eu/stats/policy_and_exchange_rates/banknotes+coins/circulation/html/index.en.html.

Figure 1. Total emission balance of EUR banknotes of the Baltic states 2019-2022, mEUR

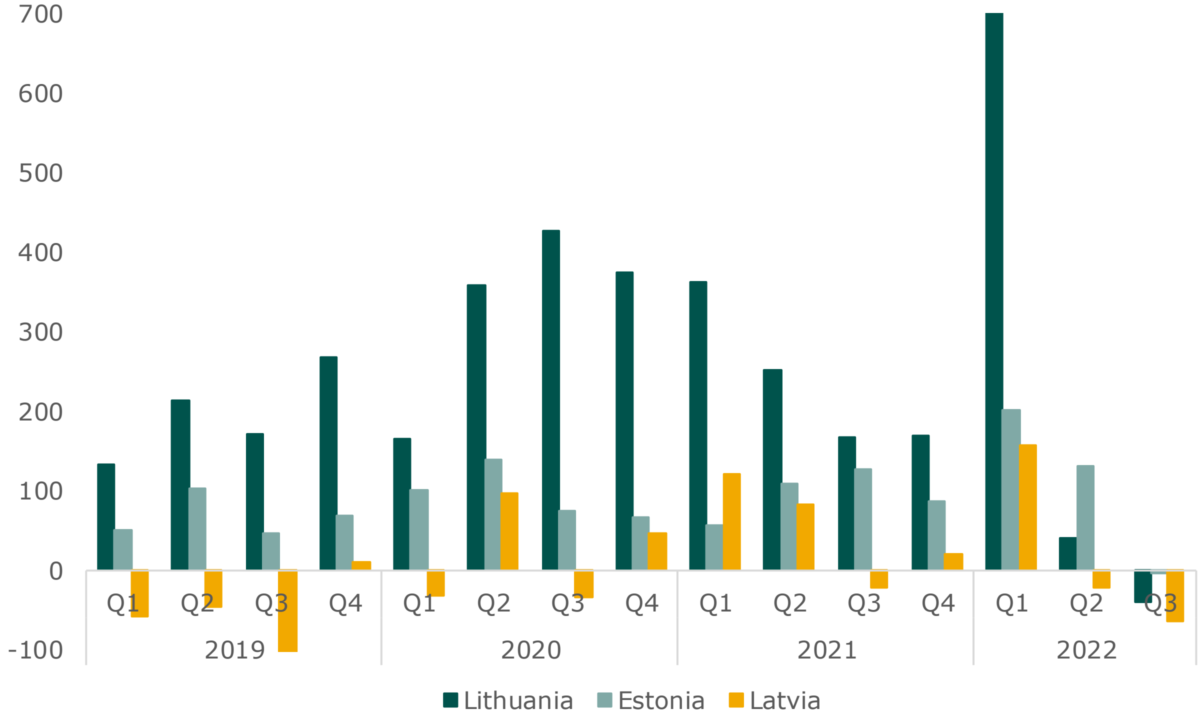


1.3. Baltic Central Bank Balances

1.3.1. The total euro emission of Estonia and Lithuania until 2019 is proportional to their capital keys. However, the growth of notes issued into circulation by Lithuanian Central Bank in the following three years has been considerably higher than that of Estonian Central Bank, with total emission on average growing by six percent every quarter for the Lithuanian Central Bank and by four percent for the Estonian Central Bank. This suggests a larger cash outflow from the Lithuanian Central Bank in the reporting period (Figure 2).

1.3.2. On the other hand, the balance of the Latvian Central Bank has generally not been proportional to its Baltic neighbours. The total emission balance of Latvia indicates regular movement of cash from abroad into the country up until the start of 2020. Estimates based on the ECB capital keys and the emission balances of Lithuania and Estonia indicate that Latvia's balance at the end of Q3 2022 could be between 4.2 bnEUR and 5.1 bnEUR. Part of this difference, created between 2014 and start of 2020 can be attributed to legitimate financial dynamics, like the investment-based temporary residence permit program of Latvia, cash holdings in euro prior to joining the eurozone in 2014, or others. However, the atypical volume of approximately a difference of 4 billion euros, or multiple hundred million per year between 2014 and start of 2020 suggests otherwise. Part of the cash could historically be linked to illicit schemes tied to the local informal economy, as well as placement of illicit cash generated by predicate offenses committed abroad. The years heavily impacted by Covid-19 and its respective restrictions saw the total emission balance of Latvia grow from -285 mEUR in Q1 2020 to +187 mEUR in Q1 of 2022, strengthening the hypothesis that the negative emission balance is linked with cash flows from abroad. However even then, the emission balance remained disproportionate to their neighbouring Baltic states.

Figure 2. Quarterly emission balance of EUR banknotes, mEUR



1.3.3. In Q1 2022, there is a notably large spike in Lithuanian Central Bank emissions (Figure 3). At a banknote denominations level, the spike in Q1 2022 was caused by increased demand for the EUR 100 note (approximately +70% compared to previous quarters) and for EUR 50 and EUR 20 notes (both approximately 50%). The demand for EUR 50 and EUR 20 notes returned to the previous level in Q2 and Q3 of 2022, while the demand for the EUR 100 note has remained increased. Smaller, but similar trends can also be seen in Latvian and Estonian Central Bank data, suggesting increased demand for cash during the start of the Russian war in Ukraine in all three Baltic states (Figure 4).

1.3.4. Similar to the rest of the Eurosystem, the rise of ECB key interest rates which started on 27 July 2022, are considered the main driver behind the negative emission balance in all three Baltic states in Q3 2022.

Figure 3. Emission balance of 100 EUR note, mEUR

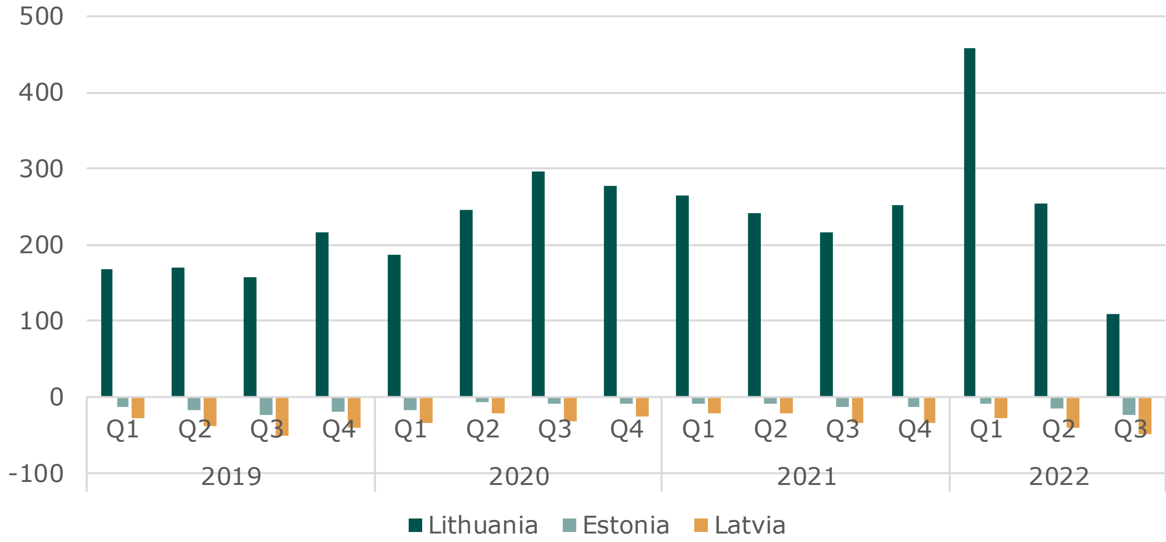
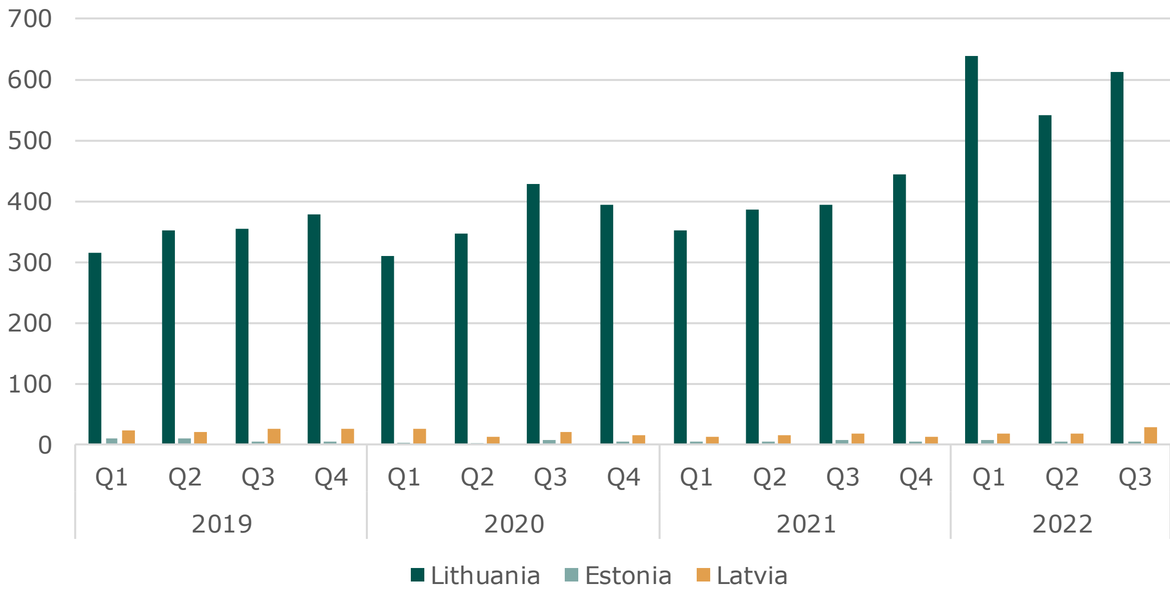


Figure 4. Issuance of 100 EUR notes in Baltic states, mEUR



1.4. Denominations

1.4.1. An analysis of the banknote denomination emissions in the Baltic states reveals an outlier in the EUR 100 note. Since 2019, the issuance of EUR 100 note in Lithuania has become gradually more disproportionate when compared to the total issuance of EUR 100 notes across the Eurosystem.[23] This suggests a large demand for cash-outs in EUR 100 notes in Lithuania. However, the demand for EUR 100 note in Latvia and Estonia and their low issuance is also disproportionate to their role in the Eurosystem economy. The high issuance of EUR 100 note in Lithuania together with issuance and emission balance data of EUR 100 note in other Baltic states (Figure 4) suggests that there may be a systemic movement of EUR 100 notes from Lithuania to Latvia and Estonia.

[23] Calculated using the Eurosystem capital key

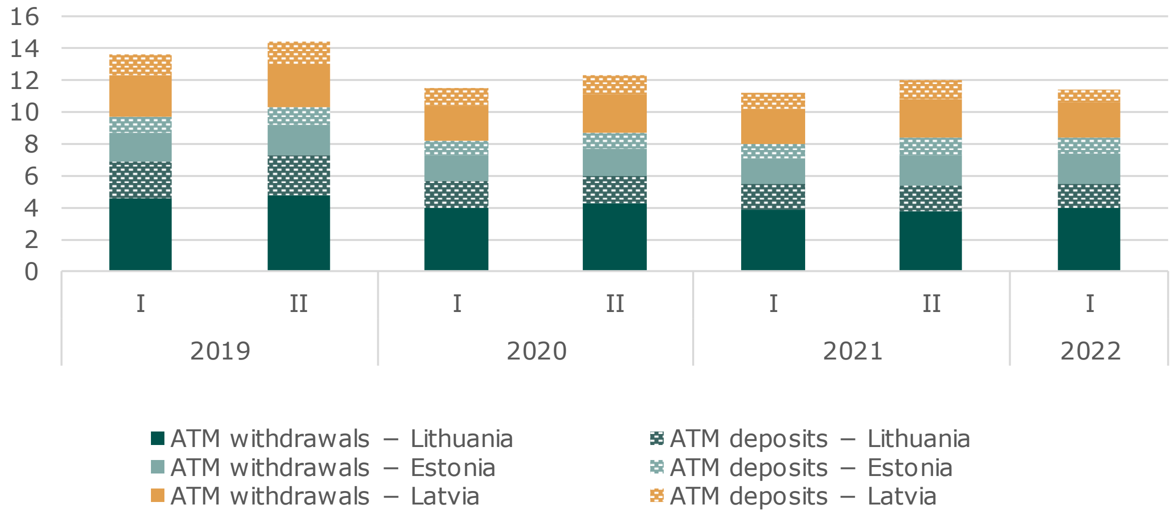
1.4.2. Other outliers in the three Baltic states include a disproportionally high inflow of EUR 500 notes in Latvia and Lithuania (since joining the Eurosystem in 2014 and 2015, respectively) that mostly occurred before the period analysed in this assessment and a negative total emission of EUR 10 notes in Estonia (since joining the Eurosystem in 2011) that also mostly occurred before the period analysed in this assessment.

1.5. Cash deposits and withdrawals via ATMs

1.5.1. For all three Baltic states there is a clear decline in ATM cash turnover in 2020 compared to 2019. This is most pronounced in Lithuania, where ATM cash deposits have declined from 4.8 bnEUR in 2019 to 3.4bnEUR in 2020 - a -30% decrease (Figure 5). The decreased level in cash turnover through ATMs in Latvia and Lithuania remained consistent throughout the Covid-19 years of 2020 and 2021 and remained low in the first half of 2022. However, in Estonia both cash deposits and withdrawals in ATMs returned to 2019 levels at the second half of 2021 and continued to slightly increase in 2022 (Figure 5).

1.5.2. The ATM cash turnover indicates a comparatively larger cash turnover in Lithuania than in Latvia and Estonia in 2019, however in 2020 there is also a proportionally higher decrease in Lithuania.

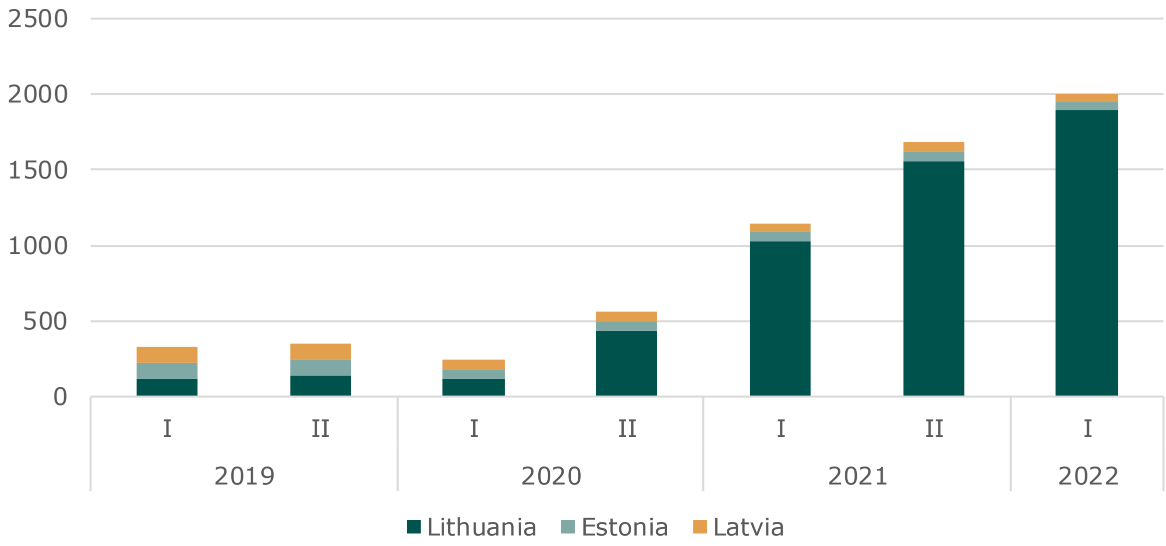
Figure 5. ATM deposits and withdrawals in local terminals with cards issued by local PSP, bnEUR[24]



1.5.3. The vast difference between Lithuania and the other two Baltic states in the amounts cashed out of terminals in different countries and out of network, with locally issued cards, is linked to the expansion of the Lithuanian Fintech sector. (Figure 7) The most notable expansion took place when payment service provider Revolut transferred its European clients from a UK-registered entity into Revolut Payments UAB licensed in Lithuania in 2020 in light of Brexit.[25]

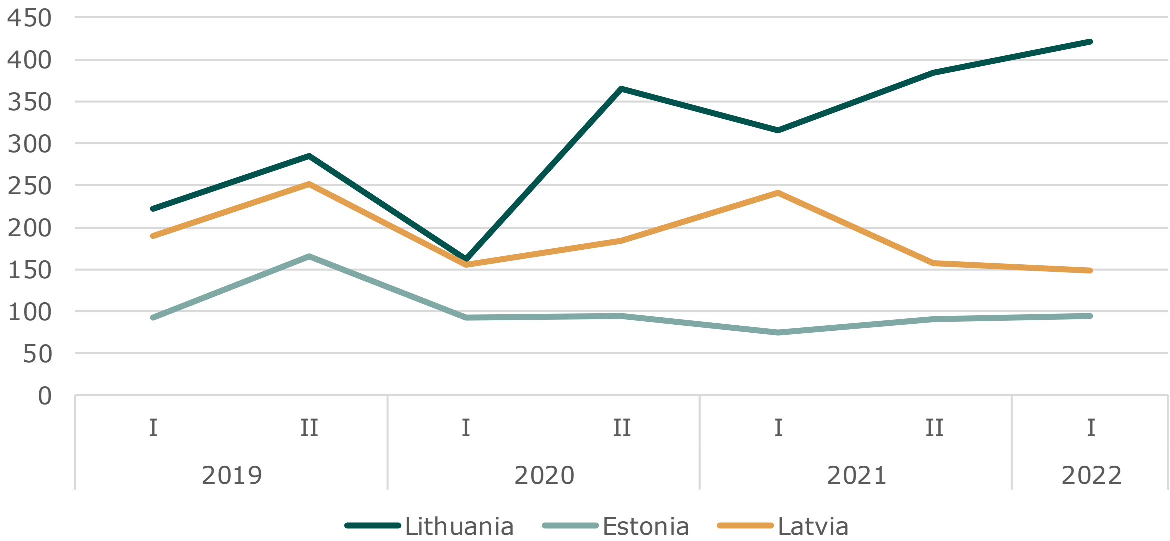
[24] Data from the Central Banks of Lithuania, Latvia and Estonia.
[25] Fintechnews Baltic, Revolut Transferring Business Customers to Lithuanian Entity. Available: https://fintechbaltic.com/2306/fintechlithuania/revolut-transferring-business-customers-to-lithuanian-entity/.

Figure 7. Cash withdrawals in foreign terminals with cards issued by loxlcal PSP, bnEUR[26]



1.5.4. Cash withdrawals in local terminals with cards issued by non-resident PSP generally do not necessarily reflect illicit activity. (Figure 8) This would be exemplified by Latvian and Estonian clients of Revolut or other digital banking platforms performing cash withdrawals in local terminals or tourists withdrawing cash for travel expenses. However, there is a risk of such withdrawals being linked to illicit activity. Traveling with the sole purpose to withdraw cash in a foreign country is a known money laundering typology,[27] that could also indicate a possible tax evasion scheme. Similarly, other typologies like credit card cloning or informal value transfer schemes.

Figure 8. Cash withdrawals in local terminals with cards issued by non-resident PSP, mEUR[28]



1.5.5. The spike in the first half of 2021 in the Latvian data points towards possible illicit activity, especially considering the Covid-19 restrictions that were still in force at the

[26] Supra note 23.
[27] FATF, Money Laundering Through the Physical Transportation of Cash. Available: https://www.fatf-gafi.org/media/fatf/documents/reports/money-laundering-through-transportation-cash.pdf.
[28] Data from the Central Banks of Lithuania, Latvia and Estonia.

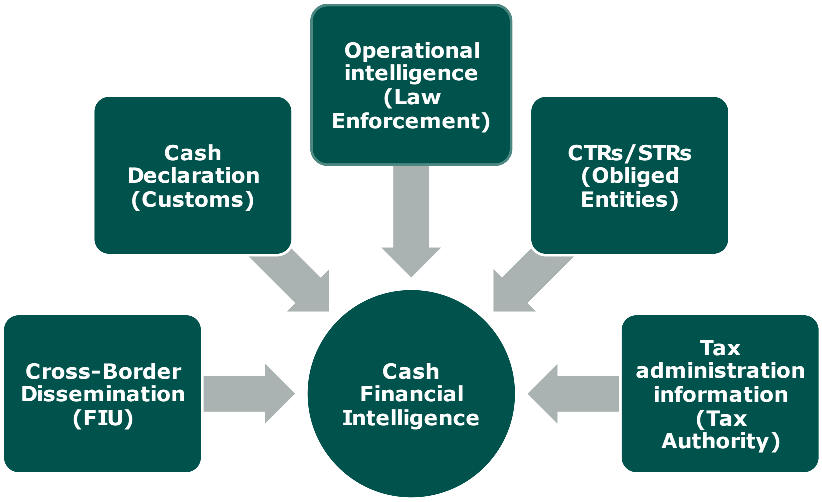
time and should be investigated further. The heightened amounts in Lithuanian data from the second half of 2020 until 2022 are disproportionate to the other two Baltic states and together with the emission data indicate that Lithuania could be a possible destination for money laundering or tax evasion schemes that include cash withdrawals abroad.

2. Regulatory Framework

3.2.1. Given the inherent anonymity of cash, regulation plays a particularly important role in establishing cash control, use, and monitoring mechanisms. Though all three Baltic states are members of the EU and eurozone, and are bound by the EU AML/CFT rules and cash controls regime, their implementation is not monolithic, and many differences persist. For example, cash reporting rules differ notably in each Baltic state, with different AML/CFT obliged entities and conditions for submitting reports, and the breadth of information therein.

3.2.2. Differences in the reporting requirements or collected information can change the scope of available information on cash, decreasing the effectiveness of future criminal investigations, or other collaborative projects. A lack of harmonization contribute to fragmented capacities and encourages 'forum shopping' by illicit actors across member states.

Figure 9. Simplified Model for Information Inflows of Cash-Related Financial Intelligence



2.2 Cash Threshold Report Framework

3.2.3. All three Baltic states have general CTR requirements for obliged entities under their respective AML/CFT rules. These rules generally derive from the designated thresholds guided by the FATF Recommendations, setting a trigger point for obliged entities to undertake due diligence.[29] Generally, CTR rules apply to financial institutions, money service providers, and designated non-financial businesses and professions (DNFBPs). CTRs require information on the subject on the transaction participants and beneficial owners, but unlike STRs, do not require a justification of suspicion.

3.2.4. The requirements for CTRs differ greatly in the threshold amounts, and conditions between the three Baltic states. The general threshold amount for CTRs in Estonia is EUR 32 000, while Lithuania's is EUR 15 000, and Latvia's is EUR 7 000. There are certain exceptions to these thresholds with smaller or larger limits between entities.

3.2.5. The threshold in Estonia's CTRs is more than two times that of the other Baltic states. The threshold is a converted rate from an obligation introduced in 2008, when the

[29] See FATF Recommendation 10 "Financial institutions should be required to undertake customer due diligence (CDD) measures when: (..) (ii) carrying out occasional transactions: (i) above the applicable designated threshold (USD/EUR 15,000)."

threshold for reporting cash transactions was set to 500 000 Estonian kroons. Among the obliged entities, there is a special CTR regulation in Estonia for credit institutions, which are exempted from reporting to the FIU cash transactions exceeding EUR 32 000 threshold only unless in the case of currency exchange transactions.

3.2.6. There are also significant differences in the obliged entities between the three countries. In Estonia, for example, the Central Bank is responsible for applying due diligence measures when it removes from circulation or exchanges banknotes or coins in the value of EUR 10 000. This is intended to protect from a particular typology known as cash refining, in which illicitly received (possibly marked or damaged) banknotes are laundered by exchanging them in central banks or other exchange locations that effectively legitimize them. Estonia also sets lower due diligence thresholds for non-profit associations when they are paid or pay EUR 5 000 in cash. An important differentiator in Estonia is the obligation of "traders" to apply due diligence measures in case of any cash payment made or received for at least EUR 10 000. Traders are understood as other persons trading in goods to the extent that payments are made or received in cash in an amount of EUR 10 000 or more, whether the transaction is carried out in a single operation or in several operations which appear to be "linked" as defined in the Fifth AML Directive.[30]

3.2.7. A direct comparison between Estonian FIU CTRs with the other Baltic states is challenging as Estonian credit institutions are only obliged to send cash threshold reports in case of currency exchange transactions over EUR 32 000. The Estonian reporting system includes several cash-related indicators for other types of reports (STRs, as well as unusual transactions and activities),[31] has been designed with the aim of directing obliged entities to report based on suspicion, not limiting themselves with threshold-based reporting. However, of all cash-related reports that were sent to the Estonian FIU between 2018 and 2022, threshold-based reports were still prevalent: 70% of the reports were CTRs (with 65% of CTRs stemming from financial institutions), 8% unusual transaction reports, 18% unusual activity reports and only 3% were STRs.

3.2.8. In Latvia, the main obligation to report CTRs of EUR 7 000 falls on payment services providers. This category includes credit institutions on the basis of them including services enabling the placement, withdrawal, and use of cash. A lower threshold of EUR 5 000 also applies to financial institutions specifically when engaged in the purchase and sale of foreign currency, which includes the majority of credit institutions. Lastly, a specific outlier focuses on sworn notaries receiving cash as a part of the list of items that may be inherited, which is preventative to a particular typology for the laundering of cash.

3.2.9. In Lithuania, the CTR threshold is broader, encompassing financial institutions and notarial service providers. A special categorization is made to a variety of services and trade where customers supersede the EUR 15 000 limitation due to "large ongoing monetary transactions," including provision of legal services, lotteries, trade in real estate, or various other activities.

3.2.10. The differences in cash threshold obligations are among the main opportunities for legal arbitrage by criminals. The high cash transaction threshold of Estonia and the broad exemption from CTRs by financial institutions makes it more susceptible to being utilized for various ML typologies. However, the differences in subjects required to submit CTRs can also increase vulnerability to sophisticated legal structuring using, for example, NGOs which are not obliged entities in Latvia but are obliged entities in Estonia.

3.3. Customs Declarations

[30] See Art 2.1. 3) d of the Directive (EU) 2015/849 of the European Parliament and of the Council.

[31] See the Estonian FIU's guidelines on suspicious transactions. Financial Intelligence Unit of the Republic of Estonia, Guidelines on the Characteristics of Suspicious Transactions, available at: https://fiu.ee/en/media/370/download

3.3.1. All three Baltic states implement EU rules requiring the declaration of cash entering or leaving the EU.[32] Any natural person entering or leaving the EU and carrying cash of a value of EUR 10 000 or more is required to declare that sum to the competent authorities of the Member State through which the person is entering or leaving. Declarants must list their personal details, cash ownership status, its intended recipient, provenance and intended use, and information on the transport used.

3.3.2. These declarations provide essential information to understanding the broader movement of cash from non-EU countries and serve as evidence in criminal investigations and proceedings. All three states criminalize the failure to declare or false declarations, and the offence is punishable with a pecuniary fine and imprisonment.[33]

3.3.3. In 2019, Latvia also implemented a form of intra-EU cash movement control. Upon the request of a Latvian official, a natural person who crosses the state border with cash in the amount of EUR 10 000 or more can be obliged to fill out a cash declaration form.[34] Estonia and Lithuania do not have such obligations in place.

3.4. Cash Restrictions

3.4.1. There are significant differences in the limits on cash payments between the Baltic states. The limit on cash payments for goods and services precludes the use of cash beyond a certain threshold. Estonia has no limit on cash payments generally; though companies may refuse to accept cash in banknotes or coins from EUR 50 denomination, regardless of the total transaction value. The Estonian Central Bank and credit institutions must accept cash without restriction, however. In Latvia, the maximum amount that can be paid in cash is EUR 7200, and immovable property cannot be purchased with cash. In Lithuania, the limit for cash payments is EUR 3000.

3.4.2. The differences in cash restriction implementation across the three Baltic states inadvertently promotes forum shopping. Criminals can move their cash across borders to perform a cash-based transaction in Estonia, for example, or just indicate that the transaction has taken place there. The proceeds of this transactions can then be moved back to their respective country. Even though the differences persist at the moment, the upcoming EU AML regulation and directive proposals will set the EU-wide cash transaction limit (at EUR 10 000 in the first proposal).[35]

[32] EU Regulation 2018/1672

[33] In Latvia, it can be found in Section 195^2 of the Latvian Criminal Law. In Estonia said actions shall be regarded as smuggling (illicit trafficking) in accordance with Section 391 of the Estonian Penal Code. In Lithuania, said actions are considered smuggling in accordance with Section 199 of the Lithuanian Criminal Code.

[34] According to Section 5(4) of the Law on Declaration of Cash at the State Border, a natural person who, by crossing the internal state border, is bringing in or out of the Republic of Latvia cash in the amount of EUR 10 000 or more, before leaving the Republic of Latvia or after entry therein with the cash shall, upon a request of an official of the competent authority, complete in writing the cash declaration form, certify the veracity of the information provided therein with a signature and submit the declaration to the respective official of the competent authority.

[35] Proposal for a Regulation of the European Parliament and of the Council on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing 2021/0239 (COD), available at: https://data.consilium.europa.eu/doc/document/ST-15517-2022-INIT/en/pdf

4. Cross-border Cash Movement in the Baltic states

4.1.1. Many ML/TF schemes involve at least two countries, and the smuggling of illicitly gained cash remains a prevalent method of building such schemes.[36] Cash controls on the border of EU member states have developed in part to mitigate the risks related to the physical movement of cash across borders.

4.1.2. Cash declarations are divided between air, sea, and land transport and indicate the origin of the cash, and whether it belongs to a legal or natural person, as well as its intended use and provenance. The following section investigates the amounts and origin of cross-border cash movement based on these declarations.

4.1.3. The Baltic states are rarely the origin or destination of the cash entering across their borders. Until the restrictions imposed by the Covid-19 crisis, a common origin of cash entering both Estonia and Latvia were from Russia. The cash declaration trends suggest that unlike Estonia and Lithuania, much of the cash entering Latvia was intended to stay. However, cash flows became significantly smaller after the imposition of travel restrictions due to Covid-19 and the Russian invasion of Ukraine in early 2022 (see Annex). For Lithuania, Kazakhstan and Belarus remain the highest sources of cash inflows, but, together with Estonia, and increasingly Latvia, the UK is the highest destination country, indicating that Baltic states are utilized for transit. This coincides with risk exposure indicated by the NRAs of each country.[37]

4.2. Cross-Border Cash Flows

4.2.1. Cross-border cash flows with non-EU countries are different among the Baltic states. Estonia has the lowest declared cross-border cash-flows. Between the years 2018–2022, approximately EUR 110 million entered and EUR 141 million exited the country. In Latvia, volumes have been higher compared to Estonia: 165 million entering and 268 million exiting. In Lithuania, the volumes of declared cash significantly supersede its neighbours relative to the capital key: in the entering route 220 million euros, double the size of Estonia and in exiting route more than 1.6 billion euros. The proportion of entering volumes parallels the differences in capital key, however, the exiting flows from Lithuania are relatively high, and more investigation is necessary into the variety of possible intervening variables.

4.2.2. In Estonia and Latvia, the majority of declared funds was by a few financial institutions. In Lithuania, the sum of entering cash declared was approximately EUR 220 million during the period of 2019-2022 (excluding last quarter of 2022). However, there were large outliers in exiting route in Lithuania in 3rd quarter in 2021 and 1st and 2nd quarter 2022, the total sum over the period 2019–2022 was EUR 1.643 billion. (Figure 10) Lithuania's outliers are also tied to the transporting of currency by financial institutions for clearing and exchange.

Figure 10. Cash declarations in the Baltic states 2019–2022, mEUR

	ESTONIA		**LATVIA**		**LITHUANIA***	
	Entering EU	Exiting EU	Entering EU	Exiting EU	Entering EU	Exiting EU
2019	26,8	25,3	107,6	132	92,4	57,9
2020	4,6	7,5	17,7	40,6	58	56,2
2021	24	49,6	16,5	39,2	34,4	363,6
2022	55,2	58,6	23,6	56,3	35,5	1165,6
TOTAL	**110,6**	**141**	**165,4**	**268,1**	**220,3**	**1643,3**

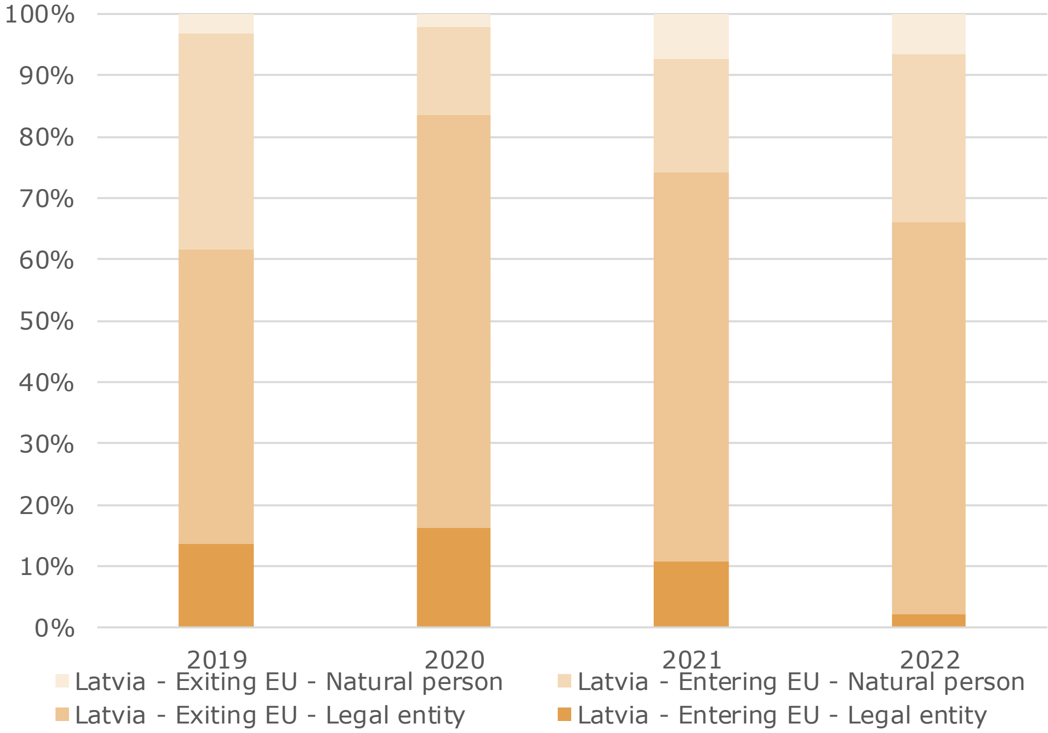
** Lithuania: Q1 2019 – Q3 2022*

[36] Supra note 7
[37] Supra note 38

4.2.3. On a year-to-year basis, the proportion of cash declarations between legal and natural persons has shifted significantly among all three Baltic states. In the years 2019 and 2020, the movement of cash into Latvia by legal persons was dominated by a small number of credit institutions and currency exchange providers, with provenance being their operations in Switzerland, Georgia, Russia, and Belarus. The majority of outflow of this cash travelled to credit institutions in Russia. A minority of cash moved to Switzerland for the clearing of cash currency other than the euro. The decrease in travel resulting from the Covid-19 travel restrictions also resulted in a lessening in currency exchange activity, which is partly responsible for the decrease of cash into Latvia in the following years.

4.2.4. By 2022, many of the banks responsible for bringing cash into Latvia had closed their operation in Russia and Belarus in response to Russia's war against Ukraine, decreasing the amount of cash moving to and from Russia by a factor of six. However, the outflow of cash began to move to credit institutions in the UK, Armenia, and Switzerland instead. The increase of cash leaving Latvia for non-EU countries in comparison to cash entering from them is indicative of a general shift in the role of Latvia as a regional financial hub. However, cash declaration data offers a skewed image of the total cash movement taking place as it does not incorporate the movement to other EU states, which may be more utilized cash transit locations (Figure 11).

Figure 11. Cash Declaration Volumes and Amounts by type of Person in Latvia, mEUR



4.2.5. In Estonia, while in 2019 there was no clear trend of distribution between legal and natural persons declaring cash entering and exiting Estonia, since 2021 the majority of cash is declared by legal persons – mainly Estonian financial institutions transporting cash to and from the UK. (Figure 12) This trend was not observed in Latvia and Lithuania. In the exiting direction, for the whole period 2019–2022 legal persons have been in a vast majority, more than 80%, both in Latvia and Estonia (Figure 13).[38]

Figure 12. Cash Declaration Volumes and Amounts

[38] Lithuanian data was not available and therefore not included in the analyse.

by type of Person in Estonia, mEUR

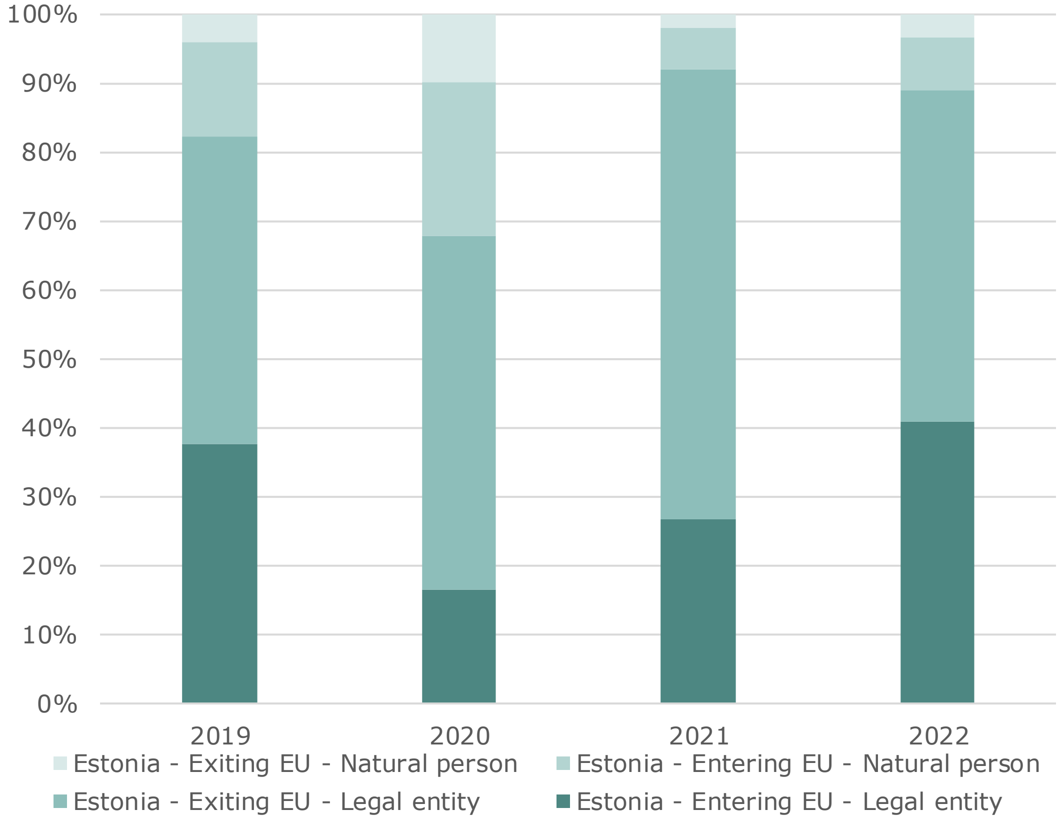
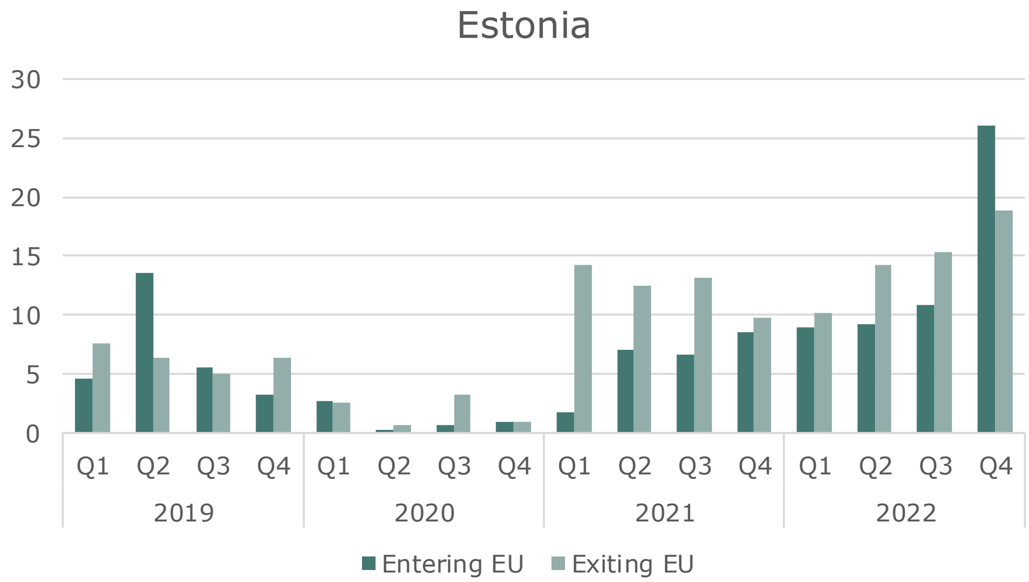
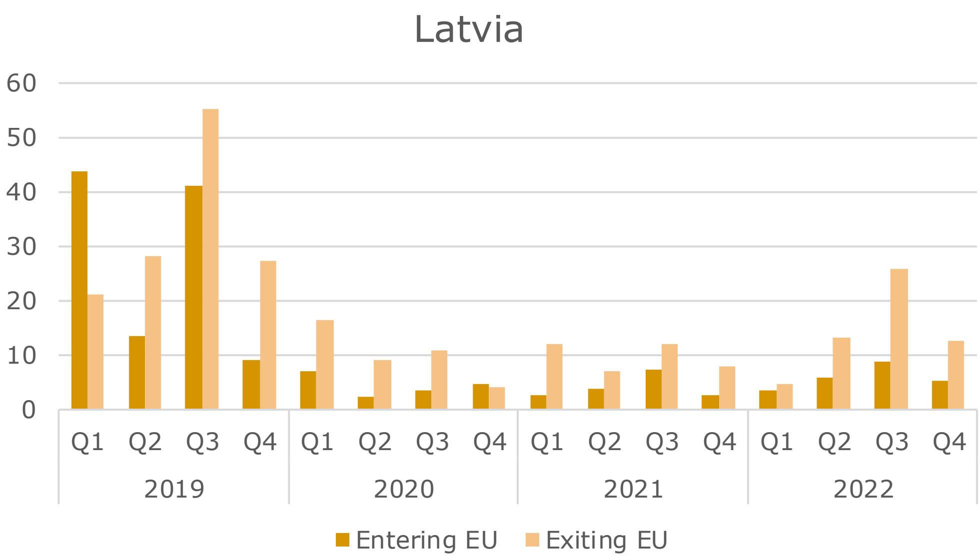
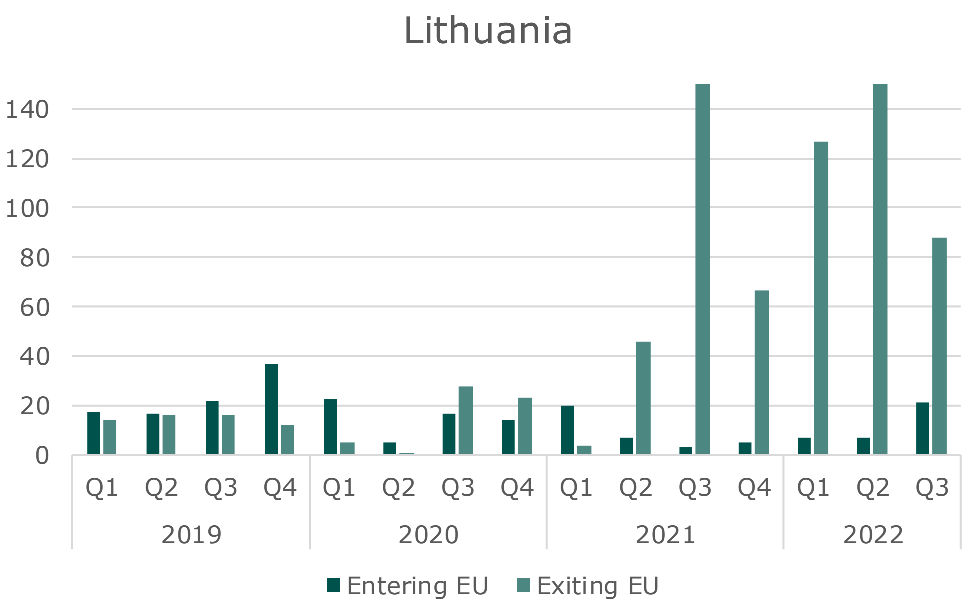


Figure 13. Cash declarations in the Baltic states 2019–2022, mEUR







4.2.6. There is little in common in the top five jurisdictions of source of cash inflows and destination of cash between the Baltic states. In Estonia and Latvia, there is one common country. In 2019–2020, Latvia had the higher sums of declared cash originating from Russia compared to Estonia, but since the Covid-19 the amounts have been comparable, except in the 3rd quarter of 2022.

4.2.7. In Estonia, the most common country of both origin and the destination of cash is the UK. Since 2021 cash needs to be declared also on the EU-UK borders and several Estonian financial institutions transport cash to and from the UK, dominating Estonian cash flows. For other countries, the sum of cash declared is much lower, while others have a low volume of declarations but with a larger amount declared. For example, in the 2nd quarter of 2019 the 11.1 *mEUR* entered from the United Arab Emirates, but since then the United Arab Emirates as entering or exiting route has been negligible. The same applies to Switzerland, from which came 12 *mEUR* in the 4th quarter of 2022. (Figure 14)

4.2.8. In Latvia, Russia and Switzerland dominate as states from which cash flows into Latvia. The Russian figure is heavily influenced by the high number of cash declared in the 1st quarter of 2019 (35.1 million, that is more than half of the total amount). However, over time, the weight of Russia has decreased in favour of Georgia and Switzerland – the latter are also mostly represented by the cash transactions of financial institutions. (Figure 14)

4.2.9. In Lithuania, top countries as source of cash are Kazakhstan, Belarus, Russia and Kyrgyzstan, all countries figure in top-5 countries during the whole period of 2019–2022. As destination of funds, the UK and Switzerland and Russia clearly dominate, the share of other countries is negligible compared to the volumes of these two countries. (Figure 14)

Figure 14. Cash declarations in the Baltic states 2019–2022, mEUR

Top 5 jurisdictions, source of cash					**Top 5 jurisdictions, destination of cash**				
ESTONIA					**ESTONIA**				
UK	RU	AE	CH	NO	UK	CH	NO	RU	SG
45,2	21,1	14,9	12,4	7,2	96,1	15,3	14,8	9,5	2,2
LATVIA					**LATVIA**				
RU	GE	CH	UA	KZ	RU	CH	UK	PL	GE
61,4	35,6	30,4	35,6	4,8	110	103,7	40,7	29,1	5,4
LITHUANIA					**LITHUANIA**				
KZ	BY	RU	KG	TJK	UK	CH	RU	BY	UA
72,4	48,6	38,4	24	12,1	1394	163,5	6,3	3	1,1

4.2.10. The impact of the Covid-19 crisis is visible in declared cash tendencies. In 2020 amounts declared decreased considerably in all Baltic states both in entering and exiting direction. The decrease was the highest in Latvia (entering: 6.1 times; exiting 3.3 times), and Estonia (entering: 5.8 times, exiting 3.4 times).

4.2.11. In 2021 there was a fast recovery in Estonia. Entering cash amounts returned to pre-Covid levels, while exiting amount doubled compared to 2019. In Latvia, on the contrary, both cash declared in the entering and exiting direction stayed the same as in 2020. The same applied to cash entering Lithuania, but in Lithuania the amount of cash declared in the exiting direction increased enormously due to the exceptionally high volume of cash exiting Lithuania in the 3rd quarter of 2021, that was most probably caused by the banks moving their assets.

4.2.12. In 2022 the amount of cash declared continued increasing both in Estonia and Latvia. In Lithuania, the amount of cash entering remained at the same level as in 2021, but in exiting route there was a significant increase.

4.2.13. On the 24th of February 2022, the Russian invasion of Ukraine began. The following sanctions packages that were imposed also consisted of restrictions on the cash movement across EU-Russian borders. In the Baltic states, it did not result in significant changes in the amount of cash declared originating from Russia or Russia as a destination of funds because the amounts were small already before the start of the war.

4.2.14. As a result of the Russian aggression in Ukraine, in 2022 (until 21 Nov 2022), the Estonian Tax and Customs Board detected 178 violations of Council Regulation 2022/345, total sum involved was EUR 1.36 million. The Latvian State Revenue Service's Tax and Customs Police has identified 46 violations, with a total sum of EUR 1.64 million involved.

4.2.15. In all Baltic states, the main means of transporting declared cash was by air until the Covid-19 movement restrictions came into force. The importance of road transport was much lower, and the other means (sea, post, railway, other) negligible. While during the Covid period and recovery, in 2020 – 2022 in Estonia air transport continued to be prevalent, there was a change in the entrance routes for both Latvia and Lithuania. Already in 2020, the importance of road transport increased in Lithuania, the same happened in Latvia in 2022 as the cash entering route. However, in exiting route air transport remained to be prevalent, and in all countries the share was higher than 90%.

4.3. Undeclared Cash

4.3.1. Undeclared cash can be tied to criminal activity - primarily cash smuggling, which is a predicate crime for money laundering. From January 2019 to end of November 2022 Estonian Tax and Customs Board (TCB) detected approximately 50 cases where cash was not declared on the border, with a total detected undeclared cash sum of EUR 1.7 million. In majority of cases the country of origin was Russia and in majority of cases the sum of undeclared cash detected regarded small amounts (more than in half cases (30) up to EUR 25 000). For the same period of time Latvia detected 149 cases, with 50 cases being from Russia. More than half (90) of these cases concerned amounts under EUR 25 000.

4.3.2. The nature and trends of undeclared cash have changed over the period of assessment. In Latvia, major shifts have taken place in the 2019–2022 period regarding cash inflow trends. Until 2020 the majority of cash entering Latvia originated in Russia, Switzerland, and Ukraine. The illicit cash came via air, or land transport, mostly from Lithuania. The Covid-19 travel restrictions significantly altered the tendencies in 2021, cutting the total amount of cash flowing into Latvia into a fraction of the previous years. In particular, the cutting of air traffic saw an immediate decrease in the import of cash. It also lessened the utilization of "VIP Express" air travel channels, where private flights would be used to import cash through smaller airports with less monitoring capacity.

Hryvnia couriers on the Estonian-Russian border

In Autumn 2022, the Estonian FIU in co-operation with other state authorities detected a suspicious increase in the number of cases where individuals crossed the border between Estonia and Russia with Ukrainian hryvnias (UAH). In most cases, the value of transported cash per person remained under EUR 10 000. However, in some instances, the amount of cash exceeded the declaration threshold and the individuals transporting the hryvnias made attempts to conceal the cash: the money was placed in bags, attached to the body with cling film and hidden under clothes, or in one case, hidden in a box of sweets. The explanations that the individuals provided to the customs officials about the origin of cash were implausible.

The authorities identified that the individuals had repeatedly crossed the border in a short period of time. Additionally, there were indications that the individuals transported the cash in question for a fee at the request of third parties. After crossing the border, the couriers passed the cash on to next individuals. The described circumstances indicated the individuals were used as cash couriers in a presumable organized money laundering scheme with the purpose of dividing large amounts of UAH cash into smaller portions for border crossings. The Estonian authorities suspect that the money may originate from crimes committed on the territory of Ukraine in the course of Russian hostilities.

4.3.3. Since 2022 the rate of cash has grown significantly from Ukraine across all three Baltic states, especially due to the traffic of refugees that are transporting cash for living purposes. The increase in land traffic has also led to the growth of cash mules and cash smuggling.

4.3.4. Criminals increasingly utilize refugee traffic and cash mules, leading to cases where transported cash in a vehicle is split between several individuals, including children, to stay under the declaration threshold. Latvian authorities have noted that these mules will then pass the cash to other national criminal networks or place the cash in their bank account and transfer it to others electronically, directly or via payment for a fictitious service.

4.3.5. There has also been an increase in land-based cash smuggling, especially through the use of freight trucks. In these cases, cash is placed in a variety of hidden compartments in the vehicle. Both cash smuggling and cash mules are difficult to catch because of the little customs control taking place within EU borders. While there has been an increase in the confiscation and removal of cash tied to the evasion of declaration of cash, because of the halt of cooperation with Russian and Belarusian authorities, information exchange is minimal which makes it difficult for investigators to exchange information on broader organized criminal groups or predicate offenses.

4.3.6. These trends have also been noticed in Lithuania. From December 2022, there has been an increase in cases of transporting Ukrainian hryvnias across the Russian and Belarussian border with the aim of exchanging it for another currency, with the usual destination being Poland. Cash is frequently divided into amounts of less than EUR 10 000 and shared between persons travelling together to avoid the obligation to declare them. In cooperation with EUROPOL, the Lithuanian customs authorities have received information that this money may be related to the war situation in Ukraine. Persons who transport money usually are couriers to whom a fee is paid for the transportation of cash.

4.3.7. A similar situation related to the Ukrainian hryvnias has already been met by Poland and Estonian customs authorities. Since December 2021 and February 2022, 45 758 875 hryvnias (1.168 *mEUR*) have been temporarily detained. The money was transported across the border by citizens of Belarus (67 persons), Russia (11 persons), Lithuania (15 persons), Poland (3 persons) and other countries (10 persons).

Cash Mules in Latvia

In 2019, criminal proceedings were initiated regarding a criminal offence provided for in Section 195(3) of the Latvian Criminal Law (laundering of the proceeds of crime on a large scale). It was ascertained in the criminal proceedings that in 2019, the suspect travelled from the Russia to Latvia by flight from Moscow to Riga and brought cash worth USD 243 000 and EUR 36 000. The suspect reported to customs officers that the cash originated as family savings. The suspect further stated that the money was gained through the sales of their apartment in Russia and that the suspect's monthly income in Russia was equal to EUR 5 000. The suspect indicated that they planned on spending the cash on buying real estate in Latvia and other personal expenses. When the suspect arrived in the Republic of Latvia, they were only carrying a small backpack, had no check-in baggage, but the money in the amount of USD 243 000, was bundled in packs by USD 10 000 and strapped with a stationery rubber band.

Although the criminal proceedings had not identified the predicate criminal offence, the Prosecutor's office held the view that sufficient indirect evidence was obtained by the investigation indicating the criminal origin of the cash worth USD 243 000 and EUR 36 000 carried by the suspect. The position was also based on the fact that, when entering Latvia several years ago, the suspect declared over 1.3 mEUR, yet, when leaving the country by plane, no cash was declared, and the suspect would usually leave the country as soon as on the following day. The suspect owns no property in Latvia, and no bank accounts are opened in their name. It was also ascertained that the monthly income of the suspect was nowhere near EUR 5 000 [the amount claimed by the person]. Moreover, the explanations provided by the suspect regarding the origin and planned spending of these funds were deemed untrue. The final court ruling in these criminal proceedings is still pending.

5. Cash-Related Reporting Trends

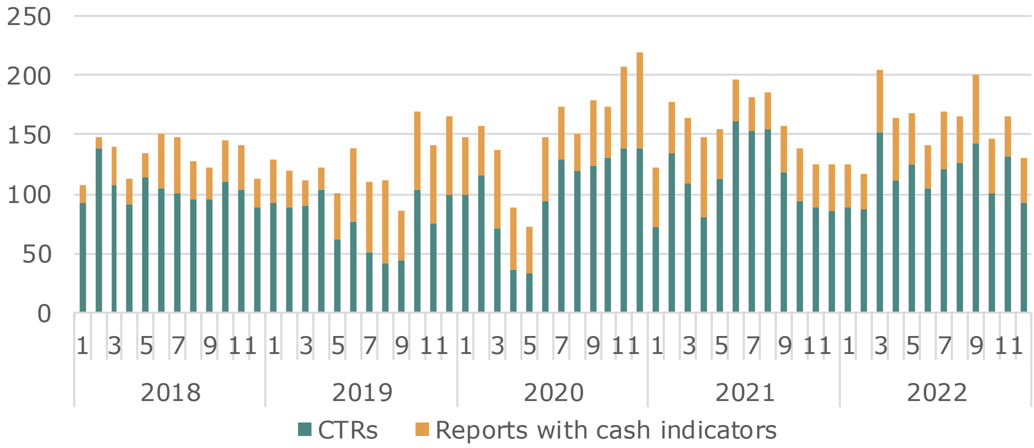
5.1.1. The FIUs of each of the three Baltic states receive inflows of reports from AML/CFT obliged entities that may indicate the use of cash in relation to suspicious financial activity or transactions. The information on cash contained within these reports represents one of the few direct ways to gauge the flow of cash throughout key sectors of the economy. When aggregated, the cash-related reporting data received by FIUs can be used to discern general cash use trends, and embed them within existing typologies, or discover novel ones.

5.1.2. This section discusses the cash-related reporting trends in each Baltic state. The model and granularity of such reports differs across each jurisdiction, with different focuses on STRs and CTRs However, the section finds that there is a growing exposure between Baltic states to each other. It also finds that the lockdown periods of 2020-2021 significantly affected the reporting across all three countries, as did the Russian invasion of Ukraine in 2022.

5.2. Reporting in Estonia

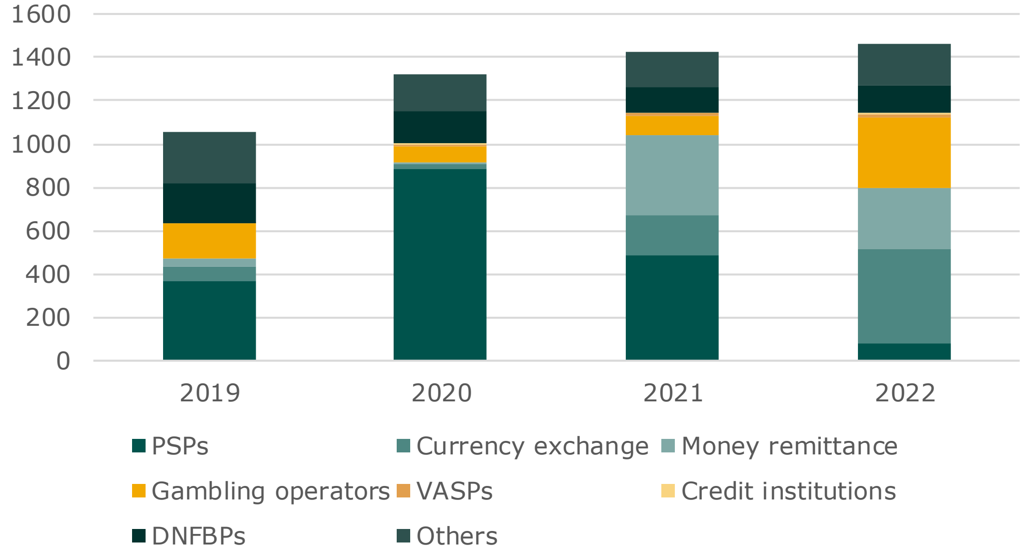
5.2.1. The share of cash-related reports in the total number of reports received by the Estonian FIU has steadily declined over the past five years. At the same time, the absolute number of cash-related reports (Figure 15), as well as the number of different reporting entities and the total value of transactions indicated in cash-related reports has grown in the years 2020—2022. Temporary decline of cash-related reports in 2019 was probably caused by the changes introduced in the Estonian reporting system that pursued the increase of suspicion-based, not threshold-based reporting. The subsequent slight uptrend in the number of cash-related reports and variety of reporting entities reflects the gradual, although slow improvement of risk awareness and due diligence among Estonian obliged sectors. The specific impact of Covid-19 on cash-related reporting is more obvious only in the report numbers of the second quarter of 2020 and the beginning and end of 2021.

Figure 15. Number of CTRs and other cash-related reports received by the Estonian FIU



5.2.2. Between 2018 and 2022, more than a half of all cash-related reports (incl. 65% of all CTRs) were reported by financial institutions, 17% were filed by credit institutions and 10% by the gambling operators, 15% were reported by the remaining DNFBPs, and 2% by public authorities and non-obliged entities. In Estonia, the banks are not obliged to file CTRs, therefore the majority of Estonian CTRs originate from financial institutions – mostly money remitters and currency exchange offices – and gambling operators (Figure 16).

Figure 16. Number of CTRs received by the Estonian FIU from different sectors/sub-sectors



5.2.3. Since 2021, there has been a significant rise in the number of CTRs from money remitters; as for 2022, the same tendency can be observed for currency exchange and gambling services providers. It is notable that contrary to the SNRA's assessment that cash-related risks are not relevant for online gambling, the CTRs indicate that Estonian gambling service provider has enabled its clients' access to online gambling services with cash funnelled through an affiliated land-based casino.

5.2.4. Estonian PSPs rarely send suspicion-based reports. Moreover, almost all reports sent by gambling operators and the majority of reports from the so-called traders (mainly dealers in precious metals, in lesser extent other cash-intensive retail businesses and real estate agents) are also threshold-based. In numerous cases, the CTRs have still been a valuable source of information because the FIU has been able to detect the involvement of the CTRs' subjects in organized crime groups or extensive tax evasion schemes.

5.2.5. Though Estonian credit institutions are not obliged to send cash threshold reports, banks have been the most active sector to report cash transactions on suspicion basis: 59% of all cash-related unusual transaction reports (UTRs), 54% of unusual activity reports (UARs) and 46% of STRs between 2018 and 2022 originate from credit institutions. The number of cash-related reports from the banks has rapidly declined since 2021, most likely reflecting the reduced risk appetite of credit institutions: the banks have off-boarded customers whose frequent cash transactions have indicated suspicious activities, most often pointing to tax evasion or participation in money laundering schemes, for example acting as money mules in international cyber fraud schemes.

5.2.6. In nearly 60% of Estonian CTRs, the threshold set in Estonia (EUR 32 000) has been reached not in a single payment but as several related payments. This is more common in the CTRs from financial institutions and suggests a rather narrow circle of regular customers performing cash transactions and, on the other hand, reflects their potential structuring/smurfing attempts. The relatively higher amounts in the CTRs from gambling sector, auditors and persons trading in goods indicate that cash transactions above the relatively high Estonian threshold are still and are perceived as nothing out of ordinary in the Estonian society. The CTRs, as well as other types of reports with cash indicators from traders' sector in 2022 demonstrate a significant rise in cash purchases of cars and investment gold, which conforms with high inflation rate of euro in 2022.

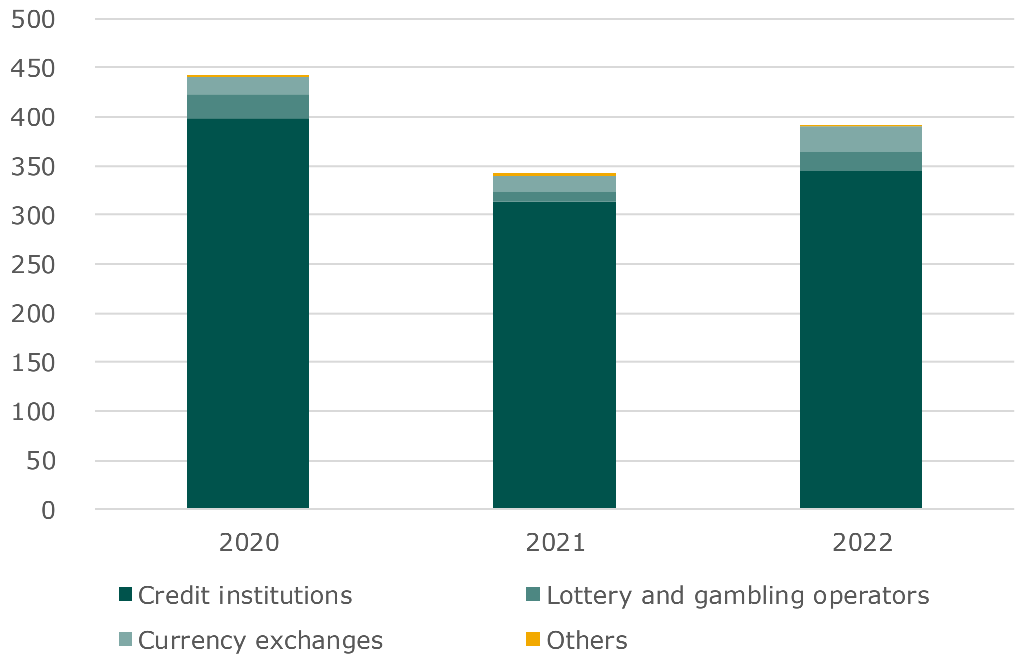
5.2.7. The parties of cash transactions as per Estonian CTRs are mostly natural persons (private individuals are transaction parties in 63% of CTRs) and primarily Estonian residents (16% of CTRs from 2019 until 2022 include non-resident individuals and/or entities). The top-6 jurisdictions of non-residents in Estonian CTRs are Russia, Finland, Latvia, Poland, Ukraine and Lithuania. Latvian legal entities figure mostly in the reports from Estonian PSPs and currency exchange bureaus, Latvian individuals find mentioning mainly in the CTRs from casinos and dealers in precious metals. Overall, the presence of Latvian entities in Estonian cash-related reports and Estonian FIU's cash files have significantly declined, compared to the previous decade. Regarding Lithuania, mostly legal entities find mentioning in the Estonian CTRs, more often in the reports from PSPs, traders, and accountants.

5.3. Reporting in Latvia

5.3.1. The main source of cash-related reporting in Latvia are CTRs. Similar to Estonia, cash-related reporting has grown significantly in the past few years in both number of reports and their absolute value. However, this in large part due to the establishment of the CTR requirements in 2019. CTRs are also risk-neutral and are not direct indications of a change in the use of cash for illicit purposes. However, the change in CTR trends between 2020-2022 highlight a large quantity of cash movement within domestic borders.

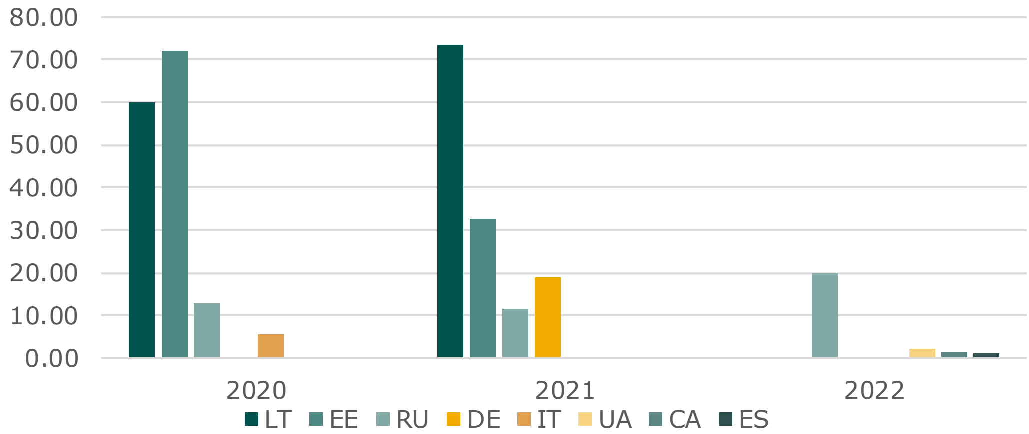
5.3.2. The majority of CTRs by number and value come from credit institutions. These are transactions performed mostly by natural persons including deposits and withdrawals, equivalent to EUR 7000 or more. The second and third most CTRs are received from lottery and gambling operators and currency exchanges (with a cash transaction report threshold of EUR 2000 and 5000, respectively), where the impact of travel restrictions show a notable decrease in cash operations in the year 2021. DNFBPs, and non-obliged entities are responsible for a relatively negligible amount of CTRs in comparison. However, the CTRs also highlight that there is a stable level of use of cash in the domestic economy, unhindered by travel restrictions or Russia's war against Ukraine in 2022. (Figure 17)

Figure 17. Cumulative value of CTRs from various obliged entities in Latvia, mEUR



5.3.3. The vast majority of CTRs in Latvia concern local sources. However, in 2020 and 2021, Lithuanian and Estonian natural persons and legal entities were the second highest source of CTRs. This number fell significantly in 2022, which is most likely linked to the removal of the travel restrictions, allowing cross-border retail funds to flow elsewhere. It also explains the growth in Russian sourced CTRs (Figure 18).

Figure 18. Top-5 Foreign nationalities of CTRs in Latvia by total amount of CTR value per year, mEUR



5.3.4. The other source of reported information on cash trends stems from STRs. Cash-related vectors in STRs are referenced by obliged entities as a specific cash-related typology upon submission of the STR. In the past few years, the number of STRs referenced with the cash-related typology has increased in Latvia. Approximately a tenth of all STRs refer to cash as a suspicious factor. Two thirds of such STRs come from credit institutions, and almost a full third is received from money remittance services and payment institutions.

5.3.5. The dynamic of STRs aligns with the CTRs received during the assessment period. As of 2021, there is a notable decrease in STRs, and especially regarding Russian natural persons. Since 2022, there is a significant increase in STRs related to Ukrainian natural persons. However, approximately half of the STRs are related to Russian, Estonian, and Lithuanian natural persons. The STR trends among legal entities highlight closer links between the Baltic states, as the top referenced legal entities are from Lithuania and Estonia. However, there is a rise of Swedish and British legal entities. Throughout the STRs there is also a significant growth of bank accounts from Lithuania, most often tied to Lithuanian Fintechs. More than 90% of STRs with cash indicators suggest tax evasion as a possible predicate offense.

5.4. Reporting in Lithuania

5.4.1. In Lithuania, until a few years ago, CTRs have been generally rare, especially for legal persons. However, the last few years experienced a rapid rise in the total amount of CTRs, mostly tied to cashing out via accounts in Fintech financial institutions in Lithuania, which provide services to the rest of the EU and beyond, like Revolut. In 2021 the total amount of received CTRs was 1.248 million, growing to 1.38 million in 2022.

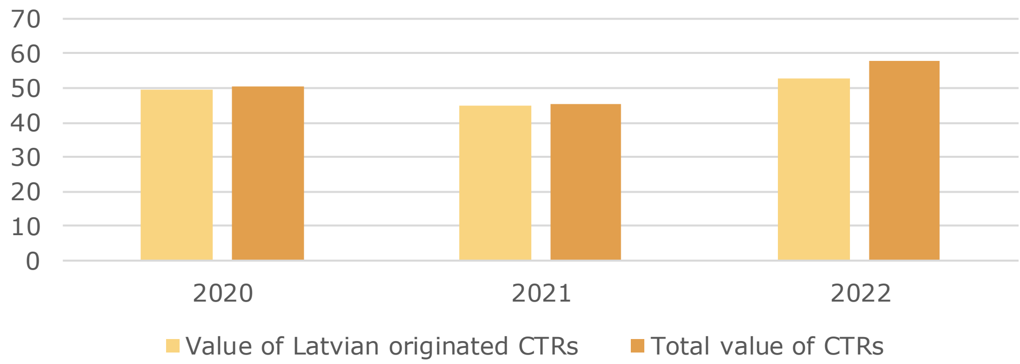
5.4.2. Similarly, STRs have grown from 45 709 in 2021, to 99 911 in 2022. Usually, STRs are provided involving cash and at least one additional suspicious factor. The usual typology regards the misappropriation of company assets being withdrawn via ATMs by the director of the company, or large amounts of cash deposited to the bank accounts through ATMs, where the source of funds could not be determined. Also, there was a tendency of STR reports when a natural person received transfers from various sources, following rapid cash-out afterwards.

5.5. Currency Exchange Case Study

5.5.1. This Section analyses the trends in CTRs received from currency exchanges in the Baltic states. Currency exchanges are among the most cash-intensive sectors of the economy. They are also susceptible to cash-based ML/TF risks through the character of their service.[39] They allow the establishment of short-term relationships with customers, with generally lower levels of due diligence, and deal directly with cash. They can be exploited in all stages of the money laundering process. Currency exchanges are susceptible to money laundering methods like smurfing especially by criminal organizations using a combination of straw men, mules, and structured transactions to hide beneficial owners.[40] Unless currency exchanges notice a trend in suspicious activity, they are unlikely to link together transactions under the required reporting threshold.

5.5.2. In the Baltic states, currency exchanges are an area of increased cross-border ML/TF risk. The close physical proximity of the three countries enables frictionless access to currency exchange networks with different cash transaction threshold rules. This increases the risk of scaling smurfing or other ML/TF typologies by criminal organizations. In Latvia, during the period of assessment, the majority of CTRs from currency exchanges came regarding Latvian nationals or companies registered in Latvia. In Estonia, the trend is similar: there are very few transactions by non-residents among the customers of Estonian currency exchanges. A Latvian currency exchange office sometimes makes clearance transactions with its Estonian affiliate.

Figure 19. Comparison of total value of CTRs received from currency exchanges in Latvia from Latvian originated sources and all sources, mEUR

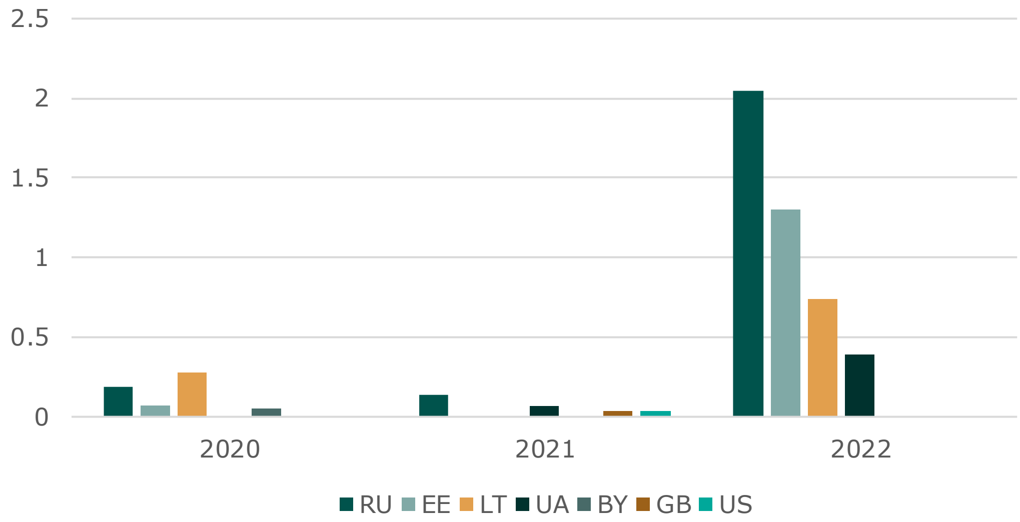


5.5.3. In Latvia, the structure of the CTRs has a clear divide between the Baltic and other countries. CTRs originating from Baltic countries are structured differently than those coming from other EU states or third countries. Approximately half of the local CTRs are from legal persons, especially many cash-intensive retail services. Though the number of CTRs originating from Estonia and Lithuania is significantly smaller, they also largely involve legal persons, especially a network of other currency exchange firms from Lithuania. From Russia or Belarus, however, there are almost all CTRs regarding legal persons.

[39] Assessment of money laundering and terrorism and proliferation financing (ML/TF/PF) and sanctions risks in the currency cash exchange sector. Available at: https://www.bank.lv/images/stories/pielikumi/valutasmaina/assessment-of-money-laundering-and-terrorism-and-proliferation-financing-ml_tf_pf-and-sanctions-risks-in-the-currency-cash-exchange-sector.pdf

[40] FATF, Money Laundering through Money Remittance and Currency Exchange Providers, available at: https://www.fatf-gafi.org/en/publications/Methodsandtrends/Moneylaunderingthroughmoneyremittanceandcurrencyexchangeproviders.html

Figure 20. Top 5 CTR origins submitted by currency exchange service providers in Latvia by total amount per year, mEUR



5.5.4. There has also been a shift in the most commonly exchanged currency in the past few years. Both in Latvia and Estonia, the US dollar has increased significantly against other currencies. This is in part due to the influx of the more liquid USD currency after the end of the Covid-19 restrictions. Concurrently, the total turnover of the Latvian currency exchange market has decreased by close to 60% from 2018 to 2021, dropping from 38 active currency exchange service providers to 18 in 2022.

Figure 21. Top 5 most frequently exchanged currencies based on CTRs submitted by currency exchange service providers in Latvia by total amount per year, 2020-2022, mEUR

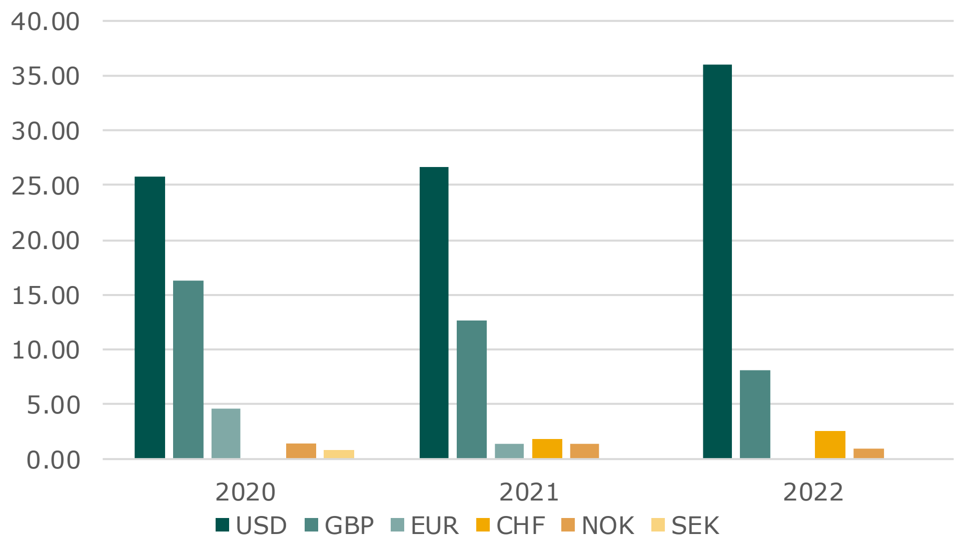
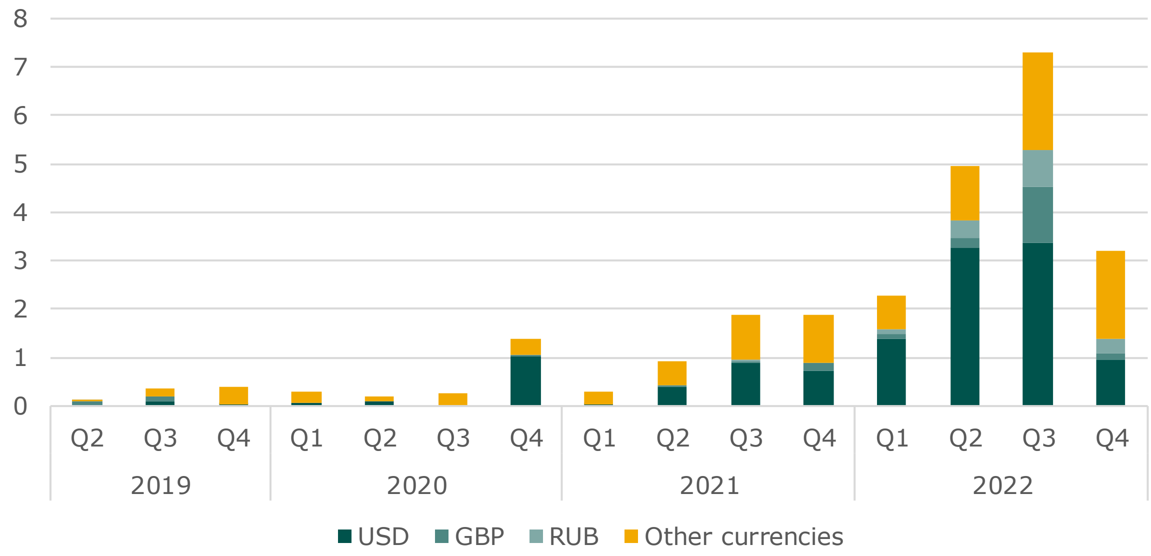


Figure 22. Top 3 most frequently exchanged currencies submitted by currency exchange service providers in Estonia by total amount per year, mEUR



5.5.5. Though most of the currency exchange CTRs in the Baltics are from a local origin, this may belie the amount of cross-border cash turnover that takes place. The majority of CTRs and STRs in the Latvian currency exchange sector come from a single entity, while the reporting from the other 60% of market participants (by turnover) is negligible. Certain currency exchanges failing to report almost a single STR or CTR, together with a focus on certain currencies that are not commensurate with the amount of tourists from the countries of that currency or declared cash in those currencies may suggest a purposeful attempt to remain under the reporting thresholds. Similarly indicative of possible money laundering are that generally over 90% of the exchange transactions conducted in the market are done anonymously, without reaching the threshold for client identification.

5.5.6. If the received CTRs are considered an indication of the broader currency exchange activity, then the split of legal and natural persons may be indicative of more sophisticated and structured ML/TF activity taking place between the three Baltics states. Though the majority of activity is most likely licit, the applicable typologies would be used to ensure that thresholds are not crossed.

6. Illicit Cash Tendencies

6.1.1. Cash is an integral part of the Baltic and global economy; however, it is also a core aspect of criminal activity. The movement of cash in and out of the Baltic markets may also align with a level of criminality present in the jurisdictions. The tendencies for the use of illicit cash may differ at a national level in accordance with their respective risk profiles.

6.1.2. This section aligns cash reporting and other trends with the general risk exposure and profiles of the Baltic states. The large informal economies in the Baltic states enable money laundering, especially for the purpose of tax evasion. However, more sophisticated money laundering structures may also persist in the Baltic states, which launder illicit cash through more complex schemes involving real estate purchases, vehicle dealerships, or other methods.

6.2. Cash Trends in Estonia

6.2.1. Estonian law enforcement authorities' seizure data somewhat reflects the role of cash in criminal activities, as well as the types of crimes that are more cash-intensive. According to the data of the Estonian Police and Border Guard Board from the past five years, seized cash (3.08 mEUR) accounted for 6% of the total value of seized assets. The share of cash was higher in crimes that themselves generate illicit revenue, and thus - cash: drug-related offenses (24% of assets seized in cash), storage and marketing of criminal proceeds (20% seized in cash), corruption (9% seized in cash) and organized crime (7% seized in cash). In terms of absolute value, the seized amount was the largest in drug trafficking (1.6 mEUR) and organized crime (0.39 mEUR). In money laundering and fraud criminal cases where the largest seizures have taken place, the share of cash in the total value of seized assets was very moderate (1% in money laundering cases and 3% in fraud cases).

6.2.2. As per data of the Estonian Tax and Customs Board, the role of cash has been relatively more prominent in their criminal investigations. From January 2018 until September 2022, the Estonian tax authority seized 1.54 mEUR in cash. On average, seized cash accounted for 15% of the total amount of seized assets. In drug-related cases, 99% of seized assets were in cash. However, in total, the largest amounts of cash (total 0.84 mEUR) were seized in customs cases (illegal handling of alcohol, tobacco products and liquid fuel). In tax crime cases, the share of seized cash is about 5% (0.46 mEUR).

6.2.3. Drug dealers use cash mainly to cover everyday expenses. In some cases, the criminals have not received cash payments themselves, but have it paid into a third party's account and then transferred to a foreign payment account of the criminal. Most frequently, such accounts are held with fintech companies N26, Revolut or Paysera. Further transfers are often made from payment accounts to cryptocurrency exchanges. Virtual currencies are mainly acquired through Binance, Bitpanda and Coinbase platforms, crypto-ATMs located in Estonia are rarely used for this purpose.

6.2.4. In the case of tax crimes, Estonian companies generally use cash to pay envelope salaries, but also to pay for goods or services in the company's economic activities. In excise crimes, cash is used to purchase new illegal goods. Individual tax criminals also use cash to cover daily living expenses.

6.2.5. The Estonian FIU's case analysts, as well as Estonian investigators of financial and economic crime have for several years pointed out that criminals have moved their accounts from local credit institutions to transnational PSPs, most notably those registered in Lithuania. Estonian Tax and Customs Board's experts describe that tax criminals open payment accounts with cross-border PSPs on behalf of Estonian or foreign companies, replenish the accounts with transfers dispersed over time and between several companies, and subsequently withdraw the funds that have been transferred there using foreign or Estonian ATMs or money remittance services, usually provided by Estonian payment agents. The same tendency is reflected in the XBDs and XBRs that the EFIU receives from other EU member states, as well as in the latest

Estonian central bank statistics: in 2022, cash withdrawals in Estonian ATMs with cards issued in Lithuania accounted for a fourth of all cash withdrawals with foreign cards in Estonia.

6.2.6. In Estonia, money mules are often used to launder the criminal proceeds of fraudulent schemes. Sometimes, money mules are also used in connection with tax crimes. Some organised criminal groups provide a service of converting cash into a "transfer to a bank account", where the criminal receives the money back as a transfer from a foreign company on the basis of a fictitious invoice. The opposite cases have also been observed, where money is transferred on the basis of invoices to the accounts of foreign companies (e.g., Germany, Latvia) and from there, the cash is physically brought back to Estonia.

6.2.7. A strong increase in cross-border money remittance which can be observed since the third quarter of 2020, especially in incoming direction, was influenced by travel restrictions during the Covid-19; since 2022, big inflow of cash is related to Ukrainian refugees coming to Estonia since 2022. However, the cash-related reports received by the Estonian FIU indicate that largest volumes of cash transactions have been executed not by international money remittance service providers (MoneyGram and Western Union) but by a small number of Estonian payment agents whose main field of business is currency exchange. The former report mostly about unusual transactions or activities, as the remitted amounts usually remain under the Estonian CTR threshold, while the Estonian payment agents of money remitters or e-money service providers predominantly file CTRs. The cash-related payment service provided by payment agents essentially consists in transferring funds from the customer's foreign account to the Estonian payment agent who issues the amount in cash to the customer. These withdrawals are possible indicators of tax-related money laundering. In majority of such transactions from 2021 to 2022, foreign accounts from which the money was transferred to Estonia were in Lithuanian jurisdiction.

6.2.8. In the course of past five years, the Estonian FIU has identified a growing number of attempts to integrate criminal assets into Estonian real estate. Among the DNFBPs, the FIU receives two-thirds of all cash-related reports from notaries. More than 90% of all cash-related reports from notaries concern the purchase and sale of real estate where usually part of the sales amount has been paid in cash; 4% of notaries' reports mention the purchase of the shares of companies in cash. Suspicion-based reports from notaries most often describe the sale of real estate objects under their market value. The notaries also rather often note allegedly fictitious purchases of real estate, as well as the use of straw persons in notarial transaction.

6.2.9. Compared to 2019 and 2020, the Estonian FIU has noticed an increase in the number of cash-related reports from the traders of high-value goods, especially car traders and sellers of investment gold in 2021—2022. One of the main causes for this tendency is probably the rapid rise of inflation rate in Estonia. Majority of buyers of high-value goods in cash are Estonian residents. However, Latvian individuals buying investment gold in Estonia follow the Russians in the top of non-resident purchasers. A small number of Lithuanian car trading companies have made cash transactions in Estonia.

Embezzled Libyan banknotes in Estonia

From the end of 2018, high denomination euro notes with sewage damage began to spread in Europe, which may originate from the branch office of the Central Bank of Libya, from which approx. 160 million euros in cash were embezzled during the Libyan civil war in 2017. It is estimated that half of the notes were so badly damaged that they were sold to Turkish criminal organizations for less than their face value. Estonian FIU has established that 500-, 200- and 100-euro banknotes with water damage and banknote serial numbers characteristic to the "Libyan money" have been transported to Estonia in at least two waves, in 2019 and 2022. The FIU worked in close cooperation with the Estonian Central Bank that provided the necessary expertise to identify the origin of the damaged banknotes. The "Libyan" banknotes that were detected in the Estonian financial system apparently trace back to Turkey, while at least part of the cash has been transported to Estonia via Russia in an organized manner. Estonian private individuals were used as couriers to transport the banknotes across the Russian-Estonian border in amounts below the EU cash declaration threshold. *The Estonian FIU has restricted the disposal of several "Libyan" banknotes that Estonian individuals have brought to the Estonian Central Bank to be exchanged for unimpaired banknotes. The FIU has also established during the control procedure that some individuals used Estonian ATMs to make deposits with damaged 200- and 100-euro banknotes and immediately withdrew the deposits in 50-euro banknotes, which indicates a conscious endeavor to exchange the damaged banknotes for notes without visible damage.*

6.3. Cash Trends in Latvia

6.3.1. Latvia has a relatively large informal economy, estimated to be between 19.9 – 25.5% of the national GDP.[41] The informal economy is split between four major sectors, from highest to lowest being: construction (28.7%), wholesale trade (25.3%), services (24.9%), and retail trade (23.9%). The use of cash in these sectors remains common, especially in the form of "envelope salaries", which are undeclared remunerative payments made to workers in cash. Though a large part of the informal economy is considered to be legal economic activity realized illegally, the informal economy also integrates money laundering activity.

6.3.2. A significant portion of money laundering activity thus takes place in the form of tax crimes, whereby natural or legal persons do not declare their income. This provides a way for professional money launderers and organized criminal groups to directly place, layer, and integrate illicit cash into the licit economy through the receipt of services or goods. Despite the fact that cash transactions are not allowed in the real estate sector, there is a tendency for part of the purchase price of real estate to be paid in cash directly to the seller in order to avoid paying capital gains tax. The transaction value is then registered in the Land Register for less than its market value. In this typology, once purchased, criminals can utilize the property for a variety of purposes, including paying cash to renovate and re-sell the property for a higher value or loan money to an associate who pays the "mortgage" with legal documentation.

6.3.3. Similar typologies take place in the sale of vehicles, whereby natural and legal persons purchase vehicles significantly under their market value (at times even by a factor of three) to avoid tax and reporting burdens. The vehicle can then be considered a liquid asset that can be sold legally in Latvia or moved to a different country.

6.3.4. Law enforcement in Latvia has highlighted that the geographical proximity of the Baltic states and their historical ties are likely enablers of cross-border use of illicit cash. The use of Lithuanian, and increasingly also UK bank accounts for cash deposit and withdrawal is a growing phenomenon. By utilizing sophisticated cross-border legal

[41] Ministry of Finance Republic of Latvia. Restriction plan of the shadow economy. Available: https://www.fm.gov.lv/lv/enu-ekonomikas-ierobezosanas-plans

structures like shell companies or fictitious contractual agreements, the cash can be laundered between Baltic jurisdictions. If needed, the cash can be withdrawn and moved easily across the Baltic states by land or air transport.

6.3.5. The organized criminal networks that utilize cash between the Baltic states may be highly advanced. Law enforcement has noted that criminals utilize a growing number of service sectors to launder cash and other proceeds, from wholesale to transport and logistics, construction, waste management, and others. The straw men that are used are increasingly profiled as professional individuals that are aware of the money laundering activity taking place, and they are enabled by professional money launderers across DNFBPs.

Money laundering typology in real estate in Latvia

In February 2022, a court took a decision regarding an apartment in Latvia, recognizing it as criminally obtained and confiscating it. The non-conviction based confiscation decision was taken based on investigation revealing that the apartment was not purchased for personal use. The intention was instead to launder the proceeds of crime, converting them into other values. This was being done by establishing shell companies in high-risk jurisdictions, which provided the initial funds for purchasing the apartment based on a mortgage loan. The shell companies were liquidated soon after the transaction.

The apartment was being rented out to Russian citizens, who were paying in cash. During the investigation and court hearings, there were a variety of contradictions regarding the origin of cash of the Russian tenants, suggesting that the cash for rent payments may come from the same beneficial owners that purchased the apartment initially, who then used the cash to repay the mortgage loan.

6.4. Cash Trends in Lithuania

6.4.1. In Lithuania, a noted typology is for fictitious or shell companies to be used as vehicles to launder money by structuring illicitly gained proceeds between them and their bank accounts, to immediately withdraw the funds via cash through ATMs. Such companies tend to be newly established, or their shareholders and directors have recently changed. In almost all cases, such companies have no employees or only a few people are officially employed – often the only employee is the de jure head of the company. It should be noted that the fictitious company does not submit activity declarations to the Lithuanian tax administrator, does not update information, and does not transfer data about the activities of legal entities to the manager of the register.

6.4.2. Such companies do not pay taxes and do not have a physical presence. Instead, the company's office is a mailbox address to which correspondence is received, but with no actual business activity carried out on location. Money transferred to bank accounts is immediately cashed out or transferred to other analogous companies involved in the criminal chain. Beneficiaries often engage in unspecified activities such as consulting, mediation, and IT services.

6.4.3. Cash is also present in a variety of frauds. Various social engineering techniques are used to manipulate individuals and defraud them of their money. In romance frauds, for example, believing that they are helping a partner, a victim often gives away their life savings, liquidates available investments and takes out loans for the benefit of the perpetrator. Similarly, investment fraudsters pretend to be brokers or use other social engineering techniques to defraud individuals of their money, which is an especially notable typology with virtual assets. Once the fraud is complete, the criminal attempts to cash out via the aforementioned structuring typologies.

Conclusion

6.4.4. This assessment aimed to analyse the movement of licit and illicit cash between and among the Baltic states of Estonia, Latvia, and Lithuania through the period of 2019-2022. The assessment developed an analytical approach that combined macro-level central bank emission data, customs cash declaration data, and data received by Baltic Financial Intelligence Units from the reports of AML/CFT obliged entities. The assessment found that while the general risk exposure of the three Baltic states is similar, cash movement differs significantly.

6.4.5. There are indications that cash flows into Latvia, especially before the period analysed, with a change in trend by the year 2020. For Lithuania, several data points suggest the opposite, there are indications of cash flowing out of Lithuania in the period analysed. Banknote level analysis reveals anomalies for EUR 100 note – Estonia and Latvia are cash-in jurisdictions for the EUR 100 note (cash is flowing in from abroad in EUR 100 notes), while Lithuania is a cash-out jurisdiction.

6.4.6. Customs data highlighted that the Baltic states are rarely the origin of the cash entering through their borders. Until the restrictions imposed by the Covid-19 crisis, a common origin of cash entering both Estonia and Latvia was from Russia. The cash declaration trends suggest that unlike Estonia and Lithuania, much of the cash entering Latvia was intended to stay there. However, cash flows became significantly smaller after the travel restrictions imposed after Covid-19 and the Russian invasion of Ukraine in early 2022. For Lithuania, Kazakhstan and Belarus remain the highest source of cash, but, together with Estonia, and increasingly Latvia, the United Kingdom is the highest destination country, indicating that Baltic states are utilized for transit.

6.4.7. Significant differences persist in the regulation of transaction reporting to Financial Intelligence Units. These differences result in disparate levels of cash-related reporting information at local levels. A comparison of suspicious transaction reports, cash threshold reports and other types of report indicates that there is a growing risk exposure between the Baltic states, and that illicit cash may be moving between the three jurisdictions utilizing cross-Baltic criminal networks. While the restrictions imposed by the Covid-19 crisis and war against Ukraine impacted reports received by the Baltic FIUs, inter-Baltic reporting remained relatively stable.

6.4.8. The high amount of cash movement and cash-related reporting aligns with the general risk exposure of the Baltic states. The large informal economies in the Baltic states enable money laundering, especially for the purpose of tax evasion. However, more sophisticated money laundering structures may also persist in the Baltic states, which legalize illicit cash through more complex schemes involving real estate purchases, vehicle dealerships, or other methods.

6.4.9. The assessment highlighted several vectors of approach to analysing the movement of licit and illicit cash. Many of these vectors necessitate deeper and more granular investigation. Emission data can be assessed at a bank-level to assess the risk exposure of different entities. Similarly, cash reporting data can be assessed more thoroughly using inferential methods. These and other factors will have to be investigated in future research.

Recommendations

6.4.10. **Within a jurisdiction, proactively preventing the use of cash for illicit purposes is dependent on obliged entities fulfilling their reporting obligations.**

It is critical to ensure that obliged entities, especially those that deal with cash, perform their duties. Ongoing collaboration and communication between regulatory authorities and obliged entities are essential for effective enforcement and monitoring of cash-related transactions, enabling prompt identification and mitigation of potential illicit activities. Implementing robust training programs and clear and accessible compliance measures can empower obliged entities to develop a strong understanding of their reporting obligations, enhancing their ability to detect and report suspicious cash transactions accurately and promptly.

6.4.11. **Cash remains elusive and without more controls and monitoring mechanisms, identification of cash movement will depend on indirect measures.**

There may be benefit for implementing further monitoring controls for the use of cash in high-risk service and product sectors. Implementing targeted regulations on measuring cash usage within high-risk service and product sectors can serve as a preventive measure, deterring potential illicit activities and providing additional safeguards to promote transparency and accountability in financial transactions. Exploring advanced technologies such as digital payment systems and blockchain can offer innovative solutions to enhance the traceability and monitoring of cash movements, reducing the reliance on deductive measures and proxies, thereby strengthening efforts to combat illicit financial activities.

6.4.12. **Currently, cash indicators in reporting rules differ significantly.**

Cross-border strategic, tactical, and operational cooperation would be significantly strengthened between FIUs or other law enforcement agencies if reporting rules and formats would be harmonized. Standardizing the reporting rules and formats related to cash indicators across borders would facilitate more effective collaboration and cooperation, enabling streamlined information exchange and enhancing the overall ability to detect and combat transnational financial crimes. Harmonization of reporting rules would not only simplify the process of sharing and analysing cash-related data but also promote a cohesive and coordinated approach in identifying patterns and trends associated with illicit cash flows, thereby strengthening global efforts in countering money laundering and terrorist financing activities.

6.4.13. **There is room for more standardization of AML/CFT rules to prevent regulatory arbitrage by criminals.**

Harmonizing reporting rules for AML/CFT obliged entities across jurisdictions can effectively close existing gaps and vulnerabilities, ensuring a consistent and comprehensive approach to combating financial crimes while minimizing opportunities for criminals to exploit legal discrepancies. By establishing consistent criteria for determining when reporting obligations are triggered, regulatory arbitrage by criminals can be minimized, and authorities can more easily identify suspicious transactions regardless of jurisdiction. This would also promote greater transparency and coordination in identifying and designating AML/CFT obliged entities across jurisdictions, fostering a more robust international defence against illicit financial activities.

6.4.14. **It is important for FIUs to effectively assess cash-related information.**

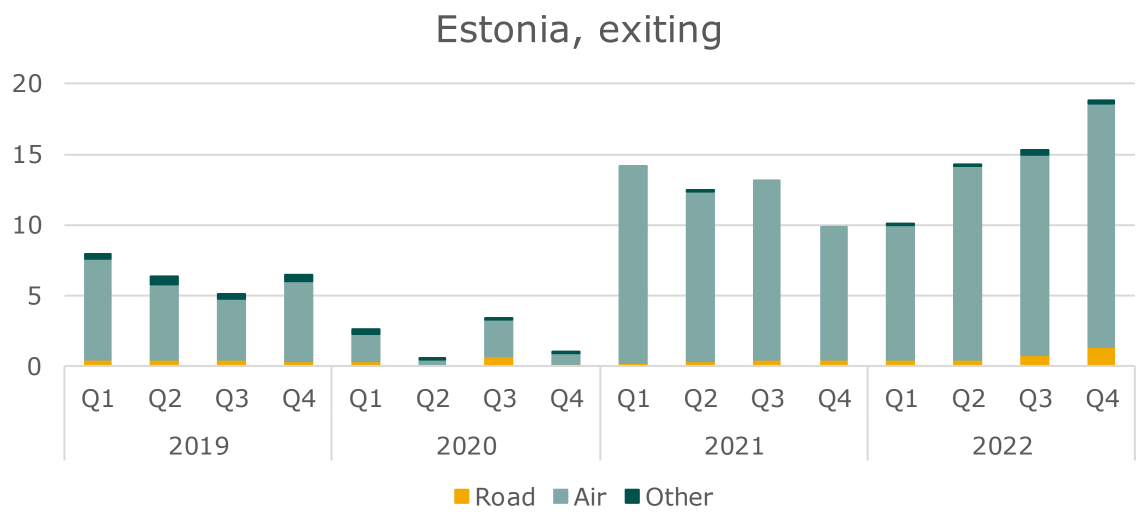
To ensure effective assessment of cash-related information, it is crucial to ensure FIUs and law enforcement agencies with the option for electronic and automatic access and retrieval of structured data. Harmonizing access levels at a supranational level would enable seamless information sharing, accelerate analysis processes, and enhance the overall capacity to detect and investigate potential illicit financial activities. Standardizing the technological infrastructure and protocols for accessing structured data across would streamline information flows, eliminate redundancies, and promote real-time collaboration. Such harmonization would empower authorities to leverage advanced analytics and artificial intelligence tools more effectively, strengthening their ability to identify complex money laundering networks and facilitate timely intervention.

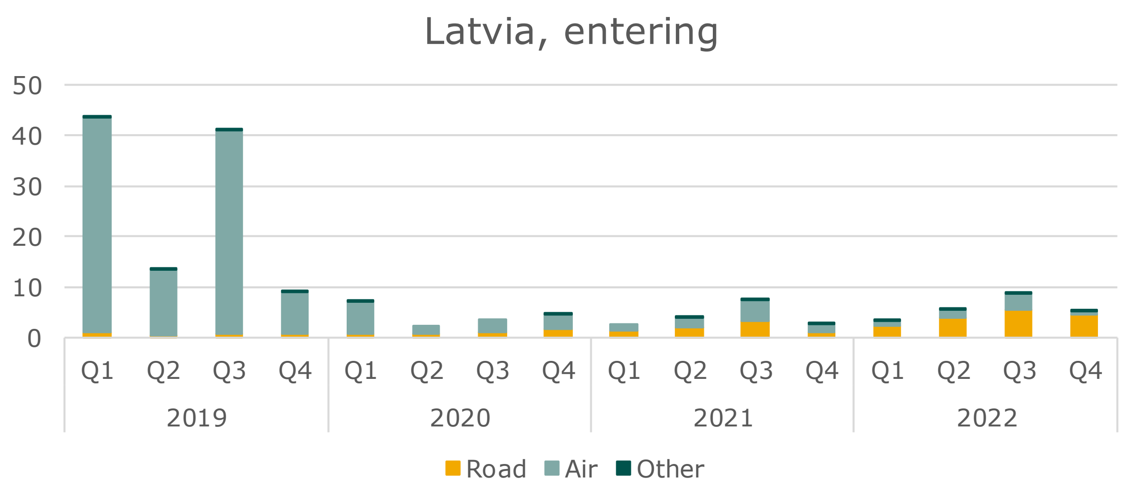
6.4.15. **There is currently no regulated way to follow or assess the veracity of information provided for the intended use of cash in customs declarations.**

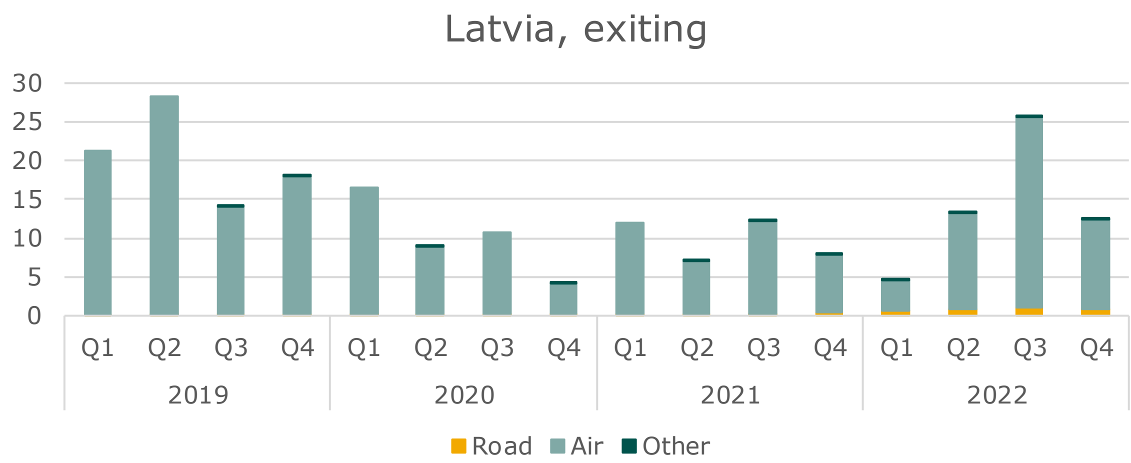
The absence of a regulated mechanism to verify the accuracy and legitimacy of information declared for cash use in customs declarations poses a significant challenge in detecting potential illicit activities. Implementing a standardized verification process, supported by advanced technologies and data analytics, would greatly enhance the ability to assess the integrity of information provided and mitigate the risk of cash smuggling and illicit financial flows.

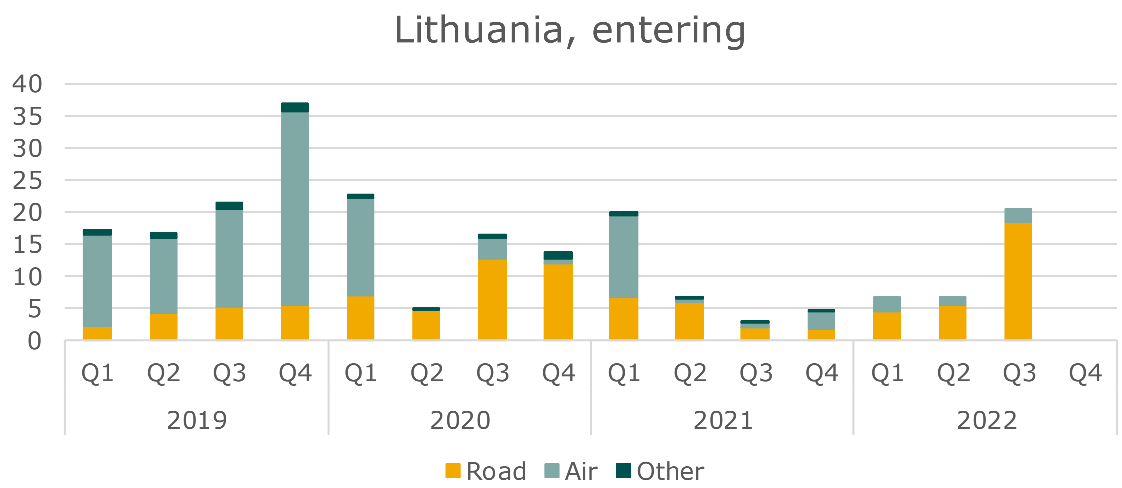
Annex

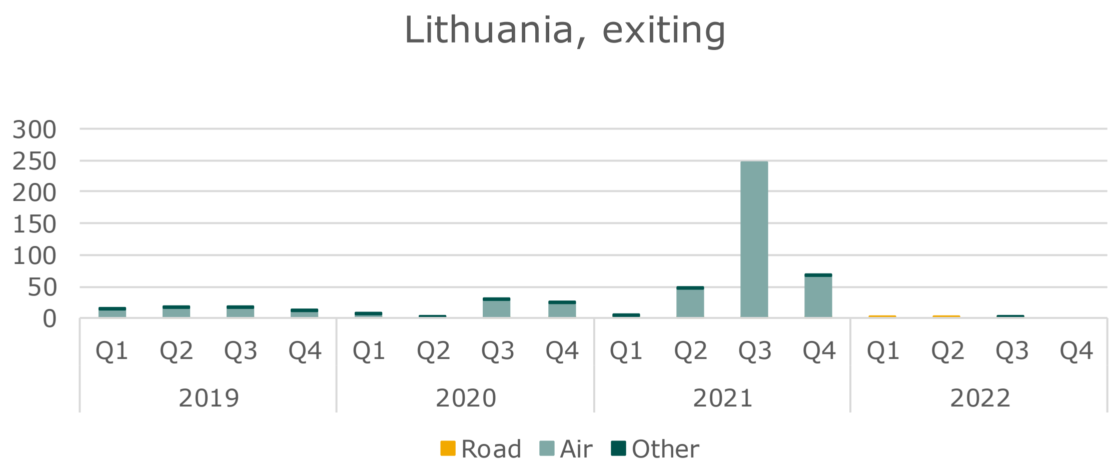
Figure 23. Cash declarations in the Baltic states, by means of transport, mEUR






Latvia, exiting
30
25
20
15
10
5
0
Q1 Q2 Q3 Q4 Q1 Q2 Q3 Q4 Q1 Q2 Q3 Q4 Q1 Q2 Q3 Q4
2019 2020 2021 2022
Road Air Other


Lithuania, entering
40
35
30
25
20
15
10
5
0
Q1 Q2 Q3 Q4 Q1 Q2 Q3 Q4 Q1 Q2 Q3 Q4 Q1 Q2 Q3 Q4
2019 2020 2021 2022
Road Air Other


Lithuania, exiting
300
250
200
150
100
50
0
Q1 Q2 Q3 Q4 Q1 Q2 Q3 Q4 Q1 Q2 Q3 Q4 Q1 Q2 Q3 Q4
2019 2020 2021 2022
Road Air Other