



Financial Intelligence
Unit



NATIONAL STRATEGY FOR THE PREVENTION AND COMBATING OF FINANCIAL CRIME

RIGA, 2023

2018

In 2018, a targeted, coordinated and risk-based reform of the anti-money laundering, counter terrorism financing and counter proliferation financing (hereinafter - AML/CTF/CPF) system was initiated, which has brought Latvia into compliance with international standards and legal acts of European Union (hereinafter - EU) regarding AML/CTF/CPF, as well as enhanced the effectiveness of the system.

A targeted, coordinated and risk-based AML/CTF/CPF policy, with specific measures and the necessary means to implement them, has enabled Latvia to make significant progress in addressing strategic deficiencies in the short term, thereby improving its international reputation and strengthening an effective AML/CTF/CPF system.

Latvia continues implementing its commitment to combating money laundering (hereinafter - ML), terrorism and proliferation financing (hereinafter - TPF) by constantly assessing and identifying new ML/TPF threats and vulnerabilities, as well as taking effective and risk-oriented measures to mitigate and manage ML/TPF risks in accordance with the legal acts of the EU and Financial Action Task Force (hereinafter - FATF) standards.

2023

In 2023, the National ML/TPF Risk Assessment (hereinafter - NRA 2023) was developed. It identifies the main ML/TPF related threats, vulnerabilities and risks in Latvia. In line with the conclusions of the NRA 2023, the National Strategy for the Prevention and Combating of Financial Crime (hereinafter - the Strategy) has been developed, which defines the strategic objective, vision and priority areas of action for the future development of the AML/CTF/CPF system in Latvia.

2024 - 2026

Whereas, the AML/CTF/CPF Action Plan for the period of 2024 - 2026 will provide a set of concrete measures to achieve the strategic objective set out in the Strategy.

The AML/CTF/CPF policy is closely linked to policies such as the fight against the shadow economy, corruption and organised crime, crime prevention and the prevention of and fight against terrorism. Thus, the Strategy's objective, vision and priority areas of action have been developed to ensure the necessary coherence with policies in these areas.

LATVIA'S ML/TPF RISK PROFILE

The NRA 2023 concludes that the Latvian competent authorities have achieved a significant reduction of ML/TPF in risks and vulnerabilities.

The ML/TPF risk identified in previous National ML/TPF Risk Assessments, resulting from poorly monitored and managed servicing of non-resident cash flows has been significantly reduced. At the same time, this risk persists in the liquidation processes of certain credit institutions that have historically focused on servicing non-resident customers. However, in recent years, this risk has been effectively controlled and managed.

The most significant threat of ML is posed by:

- Latvia's shadow economy and the criminal offences related thereto, namely, offences in the field of state revenue (tax related crimes), illegal handling of excise goods and narcotic drugs, including smuggling;
- Significant ML threat is posed also by criminal offences against property, in particular digital fraud;
- Criminal offences committed in state authority service (corruption);
- Cross-border flow of proceeds from fraud committed abroad.

At the same time, the new risk identified by the NRA 2023 regarding enforcement of EU sanctions against Russia and Belarus and detecting and prosecuting violations thereof should be highlighted. This may pose not only a ML risk, but has a significant impact on the capacity of the Latvian authorities to effectively combat ML and poses a significant threat to Latvia's internal and external security.

THE NEED FOR AN EFFECTIVE AML/CTF/CPF SYSTEM

Financial crime and the presence of proceeds of crime in the civil circulation not only allow criminals to benefit from the committed criminal offences, but also distort market and legitimate business, threaten national and international security and undermine the state's international reputation.

In addition, it should be stressed that the Russian war in Ukraine and the related EU sanctions have significantly increased the workload of the Latvian authorities responsible for enforcing sanctions, detecting violations and prosecuting individuals. Under such circumstances, the effectiveness of Latvia's AML/CTF/CPF policy is closely linked to its national and EU security.

The AML/CTF/CPF system is complex and not isolated, as it is interlinked with other areas:

- National security;
- Crime prevention;
- Fight against the shadow economy;
- Corruption and organised crime.

Strengthening cooperation and taking coordinated action is therefore essential to continuously improve efficiency. Successful cooperation between the public and private sectors is essential in the fight against financial crime.

COOPERATION + COORDINATED ACTIONS = EFFICIENCY

At the same time, importance of international cooperation must be stressed, especially in the context of the rapidly growing threat of financial crime in the digital environment. Financial services (incl. *Fintech*) have developed rapidly in recent years, providing greater efficiency, accessibility and convenience to consumers. At the same time, the digital transformation has also created new challenges in the area of financial crime, linked to the speed, anonymity, volume and wide geography of such services and transactions.

The growing threat of financial crime in the digital environment calls for a new level of international cooperation, including between the authorities of the AML/CTF/CPF system.

FURTHER DEVELOPMENT AND IMPROVEMENT OF THE AML/CTF/CPF FRAMEWORK

While ensuring the sustainability and effectiveness of the AML/CTF/CPF system honest business conduct, safe environment for foreign investments and the use of innovative technologies must be promoted. Further work is therefore required to improve the AML/CTF/CPF framework, focusing more on international competitiveness aspects and avoiding the undesirable consequences that can arise from misapplication of the AML/CTF/CPF framework.

In order to ensure the continuity of the previous AML/CTF/CPF policy and further strategy to prevent and combat financial crime, Latvia defines the following long-term development objective, vision and strategic directions of the AML/CTF/CPF policy.



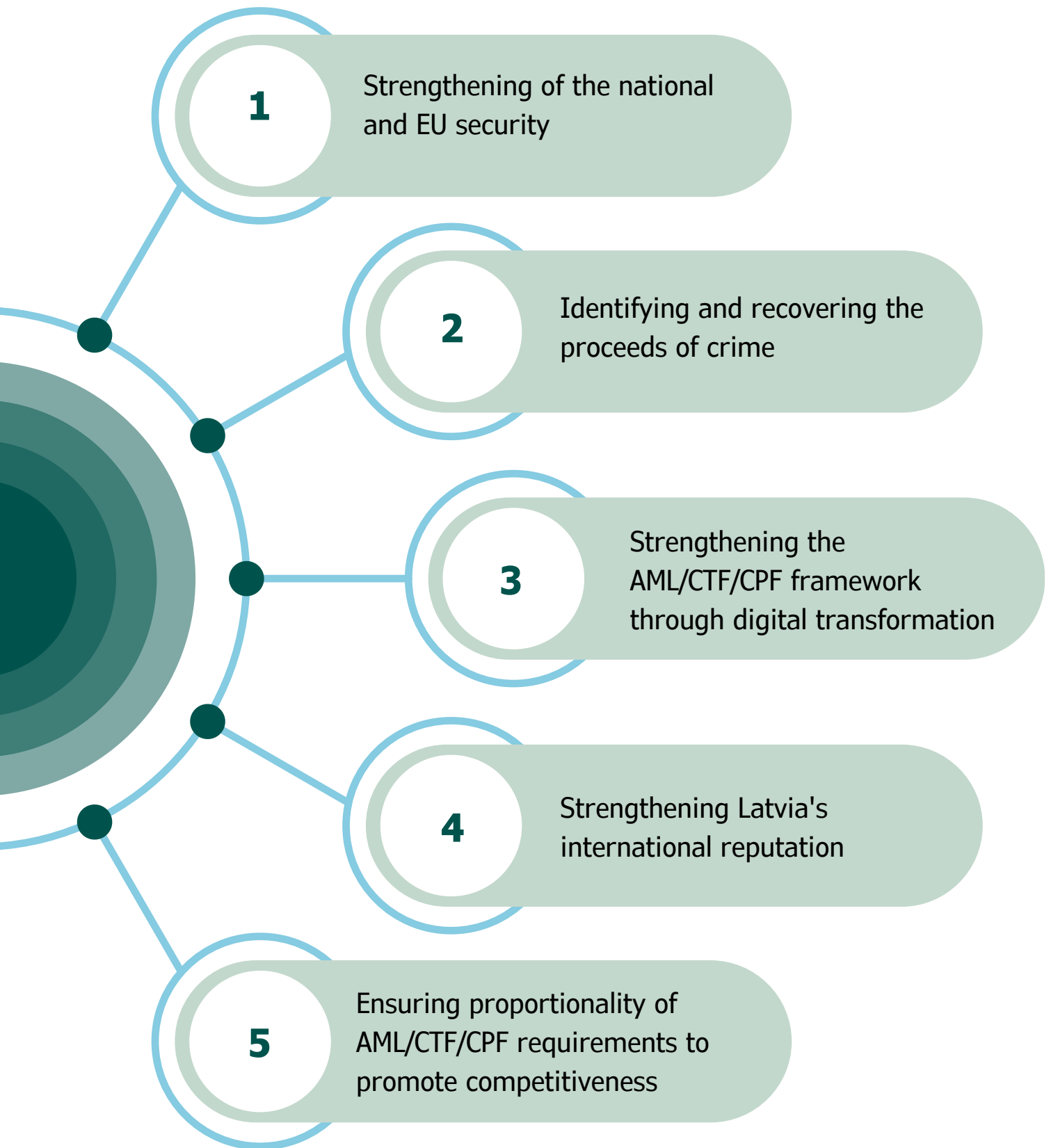
Objective:

to coordinate cooperation between the public administration and the private sector in the field of AML/CTF/CPF in order to effectively prevent and combat ML/TPF, promote the rule of law, economic growth and investment environment in Latvia, thereby strengthening Latvia's internal and external security.



Vision:

effective AML/CTF/CPF system that provides a safe and favourable environment for Latvia's economic growth and attracting foreign investments.



The National Strategy for the Prevention and Combating of Financial Crime strengthens the following **strategic directions**:

- ① Strengthening of the national and EU security by ensuring effective enforcement of international and national sanctions, preventing and combating violations thereof and strengthening the resilience of Latvia's financial system against the ML/TPF risks.
- ② Identifying and recovering the proceeds of crime. Effective identification of the proceeds of crime and their confiscation or return to victims is one of the most important objectives not only in the fight against crime, but also in ensuring the rule of law, competitive markets and entrepreneurship.
- ③ Strengthening the AML/CTF/CPF framework through digital transformation. Incorporating new technologies into ML/TPF prevention activities to make efficient use of national resources and respond to new challenges.

Strengthening Latvia's international reputation as a country that does not tolerate use of its financial system for ML/TPF in accordance with international standards and EU legal framework. The 6th round evaluation of Latvia's AML/CTF/CPF system, to be carried out by the Council of Europe's Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (Moneyval) in 2024 - 2025, will provide international evidence of the effectiveness of Latvia's AML/CTF/CPF system.
- ⑤ Ensuring proportionality of AML/CTF/CPF requirements to promote competitiveness, including strengthening an inclusive financial system that promotes fair competition and strengthens public-private partnerships to tackle ML/TPF. This will facilitate effective implementation of the AML/CTF/CPF requirements and a risk-based approach that will ensure further sustainable development and the ability to finance the national economy.