

***Strategy for the Prevention of
Terrorism Financing for 2019 - 2021***

Contents

1. Terms used in the strategy	3
2. Introduction	5
3. Objectives of the strategy to prevent terrorism financing	6
Objectives to be achieved in a short term (one year after approval of the strategy)	6
Medium-term objectives of the strategy	6
4. Threat characterization	8
Characterization of international terrorism threat	8
Threats of terrorism financing	8
Situation in Latvia in the field of terrorism	9
Situation in Latvia in the field of prevention of terrorism financing ..	10
Threats/risk and vulnerabilities identified in the TF/PF risk report	10
5. Strategic guiding principles for preventing terrorism financing	13
Legal framework in line with international law and national specifics	13
International cooperation	14
Interinstitutional cooperation	14
Raising awareness	16
An approach based on qualitative risk assessment	17
Prevention of identified vulnerabilities	18
Effective planning of prevention and response measures	19
6. Implementation of TF prevention strategy	20

1. Terms used in the strategy

FIU	Financial Intelligence Unit of Latvia (formerly Office for Prevention of Laundering of Proceeds Derived from Criminal Activity (Control Service))
VDD	State Security Service (previously (before 1 January 2019) – Security Police)
FCMC	Financial and Capital Market Commission
SRS	State Revenue Service
FSDB	Financial Sector Development Board
Authorities involved in prevention of terrorism financing	<ol style="list-style-type: none"> 1) Subjects of the law mentioned in Section 3 of the Law on the Prevention of Money Laundering and Terrorism and Proliferation Financing, 2) Supervisory and control authorities mentioned in Section 45 of the Law on the Prevention of Money Laundering and Terrorism and Proliferation Financing, 3) FIU, 4) Subjects of operational activities, 5) Investigative bodies, 6) Prosecution Office, 7) Court.
LPMLTPF	Law on the Prevention of Money Laundering and Terrorism and Proliferation Financing
The Action Plan	Cabinet order No.512 "On a plan of action against money laundering and terrorist financing for the period until 31 December 2019"
NRA	National Risk Assessment
TF	Terrorism financing
PF	Proliferation financing

Proliferation	Activities of manufacture, storage, transfer, use or distribution of weapons of mass destruction relating to the provision of such funds or the provision of financial services, which are wholly or partly used in manufacture, purchase, acquisition, development, export, transshipment, trading brokerage, transportation, transfer, for the storage or use of raw materials of nuclear, chemical or biological weapons and their means of delivery, as well as related materials (including both technologies and dual-use items that are used for illicit purposes), by violating national law or, where applicable, by failing to comply with applicable international obligations.
TF/PF risk report	National terrorism financing and proliferation financing risk assessment for 2017 - 2018
UN	United Nations
EU	European Union
NGO	Non-governmental organizations (associations, foundations, religious organizations and trade unions) ¹
MONEYVAL	Committee of experts of the Council of Europe on the Evaluation of Anti-money Laundering Measures and the Financing of Terrorism
FATF	Financial Action Task Force
Daesh	Terrorist organization <i>Islamic State</i> , also known as ISIS or ISIL. Daesh is an internationally accepted designation for this organization
AQ	Terrorist organisation <i>Al-Qaeda</i>

¹ The activities envisaged within the framework of this strategy mainly concern those NGOs, which can be used for purposes of terrorism financing.

2. Introduction

2.1. On 23 August 2018 MONEYVAL published 5th round report on Latvia, in which, inter alia, the Latvian TF prevention system was analysed and several recommendations were made to improve TF prevention.

2.2. Responding to the recommendations of the MONEYVAL report, the Action Plan was approved and is being implemented, where the coordination of the implementation of the tasks provided for is carried out by the FSDB.

2.3. Taking into account that a number of national authorities are involved in TF prevention, from which each perform certain tasks within their competence, the purpose of this document is to define common basic principles for TF prevention, which are common for all mentioned authorities and will provide strategic direction for TF preventive measures.

2.4. This strategy, together with the strategic short-term and medium-term objectives it sets out, broadly anticipates activity in several directions with the purpose to improve TF prevention system, strengthen Latvia's capabilities in the fight against TF and to ensure improvement of Latvia's international reputation.

2.5. The objective defined in the Financial Sector Development Plan for 2017-2019 approved by the Cabinet of Ministers on 21 March 2017: to develop a stable, secure and internationally competitive financial sector with access to innovative financial services which ensures sustainable growth of the Latvian economy, is also in line with the medium-term objectives of this strategy.

3. Objectives of the strategy to prevent terrorism financing

3.1. According to Consolidated FATF Strategy² combating TF must make it more difficult for terrorists to obtain, transfer and use financial assets or other tangible assets. Strategic guiding principles summarized in this document are focused on achieving this objective. The main objective of this strategy is to promote coordinated and thus most effective implementation of urgent tasks, as well as the medium-term development and succession of TF prevention measures.

Objectives to be achieved in a short term (one year after approval of the strategy)

3.2. The strategy provides that all authorities involved in TF prevention together and each individually are aware of the purpose and importance of the measures to be taken. The main objectives to be achieved in the possibly short time, are the following:

- raising awareness of TF risks, threats and vulnerabilities among authorities involved in TF prevention;
- improvement of interinstitutional cooperation;
- mitigation of TF risks and vulnerabilities identified in NRA and other national documents describing risks in the financial sector;
- to improve cooperation between law enforcement, supervisory and control authorities, by establishing an effective platform for information exchange related to TF prevention.

Medium-term objectives of the strategy

3.3. The medium-term objective is to make substantial progress in improving TF prevention in Latvia in a coordinated manner, as well as to ensure the continuous and targeted development of this system.

² Consolidated FATF Strategy on combating terrorist financing (2016)

3.4. In the medium term, it is necessary to provide effective Latvia's TF prevention system to mitigate TF risks. Implementation of the adopted and planned measures should promote Latvia's reputation in international financial markets, thus contributing to a more successful investment attraction.

3.5. Authorities involved in TF prevention should develop coordinated and effective cooperation, by taking measures of TF prevention, as well as responding to the signs of suspicious transactions within their competence.

4. Threat characterization

Characterization of international terrorism threat

4.1. Terrorism remains one of the main threats to the security of European countries and other countries around the world. Terrorist activities mostly are based on dissatisfaction of a person or group of persons with certain circumstances. This dissatisfaction may eventually lead to radicalization and terrorism.

4.2. To achieve their goals, terrorists are constantly looking for new ways how to carry out attacks without attracting the attention of security and law enforcement services. In some cases, such as *Daesh*, terrorists take control of areas where fighters are trained, hide leaders and carry out illegal activities to obtain funding (for example, smuggling and trafficking of weapons, drugs and human beings).

4.3. Currently, two major terrorist groups are *Daesh* and *AQ*, as well as associated fighting groups in different countries around the world. These groups provide financial support to other terrorist groups, as well as individual supporters for carrying out violent activities. *Daesh* and *AQ* fighters still control territories in a number of countries around the world, where armed conflicts are taking place (Syria, Iraq, Afghanistan, Pakistan, Yemen, Egypt, Libya, Nigeria, Somalia and Mali). To commit terrorist activities, radicals living in Europe in their activities are inspired by *Daesh* and *AQ*, as well as other ideologies that justify violence.

Threats of terrorism financing

4.4. Terrorists are constantly looking for new ways, how to provide for their activities. There are certain costs for each terrorist activity. Funds acquired as a result of TF terrorists use to finance:

- activities of terrorist organizations,
- travelling of foreign fighters and involvement in armed conflicts,
- preparation of terrorist attacks,
- recruiting new members

- cooperation with other groups
- daily expenses.

4.5. Without committing direct terrorist activities, terrorists also need financial resources to:

- spread propaganda,
- recruit new supporters,
- hide terrorist fighters,
- purchase fake documents, as well as weapons.

4.6. Terrorist groups can cooperate with organized crime groups to raise funding and achieve other tactical goals. The profits generated by cooperation are used by terrorist groups to finance their activities.

4.7. European security services estimate that online fundraising for TF purposes will become more important and organized in the near future. Foreign fighters in the areas of armed conflict attract funding to cover their household expenses from their relatives, friends and contacts in their countries of origin. This money is then used to fund terrorism.

Situation in Latvia in the field of terrorism

4.8. The level of terrorist threat in Latvia is low. It has never changed before and there is currently no indication that it needs to be changed in the foreseeable future. There have been no incidents related to terrorism in Latvia, and no terrorist organizations have been identified in our country.

4.9. Individuals whose accepted Islamic ideology and views expressed point to the risks of radicalization have been identified in Latvia. The people of Latvia have joined Daesh and they have been engaged in terrorist support activities. There is a risk that these individuals may use their contacts in Latvia to raise funding for terrorist activities. It should be noted that the possibility of foreign terrorists to enter Latvia and involvement in violent or terrorist support activities is currently rated as low.

4.10. The possible radicalization of the Latvian population under the influence of various ideologies justifying violence is currently the most significant risk associated with terrorism. Individuals who have shown signs of radicalization and

expressed support for terrorist groups may be involved in supporting foreign-based terrorists.

4.11. Muslims living in Latvia have become interested in terrorist ideology through propaganda materials distributed by radical Islamic preachers and terrorist groups, as well as studies in countries with a radical interpretation of Islam. Members of different social groups, irrespective of gender, age, ethnicity or occupation, may be at risk of radicalization.

Situation in Latvia in the field of prevention of terrorism financing

4.12. Until now, no TF cases have been identified in Latvia. The analysis of the identified suspicious transactions has never confirmed the suspicion of TF cases. The involvement of NGOs in Latvia in TF transactions has not yet been established. Similarly, no association of NGOs in Latvia with any terrorist organization or group has been identified.³

4.13. At the same time, a number of threats, risks and vulnerabilities that create opportunities to use the Latvian financial system for TF purposes, have been identified.

Threats/risk and vulnerabilities identified in the TF/PF risk report

4.14. TF threats/risk:

- overall, national TF threats were assessed as medium and vulnerability – as medium low;
- TF risk is assessed as medium low/medium;
- statistics about freezing orders issued in TF cases by FIU show that the Latvian financial system can be used for TF transactions, however, the number of orders issued so far and the volume of funds frozen show that this threat/risk is low;
- the most important threat factor: possible radicalization of Latvian population and joining terrorist

³ Commentary: An analysis of information collected from Latvian financial institutions shows that 98% of the transactions carried out by NGOs are domestic. In addition, most of the 2% of international transactions are made with EU countries. At the same time, it was found that the amounts of international transactions are on average significantly larger than those of domestic transactions.

groups, as well as possible involvement of radicalized persons in terrorism support activities, including TF;

- geographical location of Latvia and the fact that Latvia is in transit from east to west, poses a risk that the Latvian financial system may be used as an intermediary in the TF transactions;
- Latvia's border with Russia and Belarus is the external EU border, therefore there is a risk of cross-border transfers in both directions of cash, precious metals or other forms of financial means, intended for TF purposes.⁴

4.15. Other threats/risks:

- self-financing of the radicalized inhabitants of Latvia or obtaining funds from family members and other relatives;
- possible use of financial services by credit and payment institutions for TF purposes;
- use of funds of NGOs for TF purposes;
- use of the Latvian financial system as an intermediate in the TF transaction chain;
- transactions in virtual currencies for TF purposes.

4.16. According to threat/risk assessment, it is unlikely that Latvia could be the country of origin or destination of TF funds. Results of threat analysis show that Latvia is much more likely to become a transit country for TF transactions.

4.17. Vulnerability:

- Latvian financial service providers may be used in TF transactions, including small amount transactions
- Use of the Latvian financial system as a transit link in TF related transactions;
- According to TF/PF risk report FCMC regularly identifies weaknesses in the automated internal control systems of the Latvian financial sector or shortcomings in

⁴ *Commentary: according to TF/PF risk report, the majority of cross-border payments are made to or from Russia. In addition, a large part of cross-border transactions to Russia are made by foreign customers of Latvian banks.*

customer due diligence, which reduces the effectiveness of TF case identification;

- the non-bank sector does not always use available technology solutions for customer due diligence;
- knowledge of TF threats/risks among non-bank employees is incomplete;
- financial services that can be obtained remotely pose risks of anonymity and fraud which may result in the transfer of money to a third party; such services are easy and quickly accessible and the purpose of assets used stays unclear;
- NGOs have the opportunity to freely receive donations whose sources are not listed and the use of which is poorly controlled;
- NGOs in Latvia are not subjects of the LPMLTPF. Their supervision and control are performed by the SRS, however, it is not sufficient and comprehensive, as it concerns only compliance with the tax regime.⁵

⁵ *Commentary: According to FATF materials, religious, charitable, social assistance, housing, health and education NGOs are exposed to high TF risk. There is a tendency in Latvia that the number of such NGOs continues to grow. Exception is religious NGOs - their number is decreasing.*

5. Strategic guiding principles for preventing terrorism financing

5.1. The guiding TF prevention principles defined in this document apply to all authorities involved in TF prevention.

Legal framework in line with international law and national specifics

5.2. Authorities involved in TF prevention should continue to develop national frameworks in line with changes in international law regarding counter-terrorism, including the field of prevention of terrorism financing, as well as taking into account existing or potential future risks.

5.3. Recommendations, guidelines, studies, evaluations and other sources from international organizations can also contribute to the development of a better national framework.

5.4. In the improvement of the national framework, international legal norms, internationally accepted standards and objectives pursued should be taken into account, at the same time taking into account characterization of the national threat to address primarily the identified national threat/risks and vulnerabilities.

5.5. Authorities involved in TF prevention should proactively identify possible improvements to national framework and to introduce them to other authorities within an appropriate format of cooperation.

5.6. The participation of both national and individual institutions in the development of international legal norms, standards, guidelines, recommendations and other materials are to be considered supportive. This will contribute to the accumulation of knowledge and experience that will be useful for the development of the national legal framework.

5.7. One of the sectors of the financial field where there is a serious lack of regulation, is transactions in virtual currencies. It is necessary to create an appropriate legal framework that

includes defining control and supervision and provides opportunities to address existing TF threats/risks.⁶

5.8. There is a need to review the legal framework regarding the activity of Latvian NGOs, in particular regarding the collection of information on donation sources and its use and compliance with the objectives of NGOs. In addition, there is a need to provide appropriate regulation that defines sufficient and comprehensive supervision and control of NGO activities.

International cooperation

5.9. The authorities involved in TF prevention activities should be actively involved in the various forms of international cooperation and information exchange processes, to constantly keep up with international processes and tendencies in the field of TF prevention. The regulatory framework should be assessed so that it does not restrict or hinder the ability of authorities involved in TF prevention to engage in international cooperation activities.

5.10. Within the international cooperation, an analysis of TF cases in other countries should also be carried out, so that the conclusions drawn can be used in the framework of Latvia's TF prevention. Special attention should be given to the evaluation of the recommendations and best practices described in the FATF reports in the context of Latvia.

Interinstitutional cooperation

5.11. According to Consolidated FATF Strategy, a good cooperation and coordination among the authorities involved in the prevention of TF is crucial to fight against terrorism financing. Effective information exchange between TF prevention authorities increases the potential for gathering a

⁶ *Commentary: according to amendments in the LPMLTPF, from 1 July 2019 virtual currency service providers in Latvia will be subjects of the LPMLTPF and its supervisory authority will be SRS. Virtual currency service providers will have to fulfil a number of responsibilities, including reports on types of activity, should set up internal control systems and report on suspicious transactions.*

significant set of information that is necessary for TF prevention or investigation of identified cases.

5.12. Provision of effective information exchange for investigation promotion is one of the priorities for improvement TF prevention system of Latvia. Effective interinstitutional cooperation is crucially important for realization of any TF prevention measures, because they all essentially concern the competence of several authorities at the same time. Cooperation among authorities involved in the prevention of TF should primarily focus on:

- timely identification of TF cases;
- ensuring effective response to identification of TF cases;
- exchange of information, ensuring that information received by one authority, which may be useful to other authorities involved in the prevention of TF, come also to the disposal of these authorities;
- improving mutual cooperation;
- organizing of mutual training on current issues in the field of TF.

5.13. By mutual cooperation authorities involved in TF prevention should find solutions how to remove restrictions or other circumstances that hinder or prevent to take TF prevention measures in sufficient volume or speed in accordance with the strategic principles outlined in this document. Mechanisms for information exchange between the financial sector and public authorities should be used and improved in cooperation between authorities involved in TF prevention.

5.14. One of the cooperation elements of the interinstitutional cooperation, which is of crucial importance, is reporting on suspicious transactions. All authorities involved in TF prevention measures should ensure that a report is made to FIU,

as soon as possible for each transaction that contains signs of a suspicious transaction.⁷

Raising awareness

5.15. Raising awareness is included in the Consolidated FATF Strategy as one of the priority actions to be taken to improve the effectiveness of TF prevention measures. According to FATF 40 recommendations,⁸ countries [authorities involved in TF prevention] must be aware of TF risks to ensure effective TF prevention. Both FATF and MONEYVAL experts pay great attention to the level of awareness of TF threats/risks by the authorities involved in TF prevention.

5.16. Effective TF prevention requires a good knowledge and broad understanding of:

- essence of TF,
- types of TF,
- transfers of financial assets and other tangible assets for TF purposes,
- terrorist organization and group financial management,
- TF support infrastructure (intermediaries).

5.17. In addition, knowledge of current events in TF prevention is also required. Consequently, all authorities involved in TF preventive measures should regularly organize and participate in various information seminars and trainings aimed at raising awareness of TF prevention issues mentioned in clause 5.16 and other issues.

5.18. One of the sectors of the financial field about whose activities it is required to improve knowledge, is transactions in virtual currencies. It is a relatively new and different settlement tool/mechanism/solution, whose operating principles give benefits to their use in illegal activities (difficult traceability of

⁷ Commentary: Statistics available in the TF/PF risk report show that the number of reports on suspicious transactions is increasing every year. Taking into account that TF risks/threats have not significantly increased in recent years, the increasing number of reports indicates improved interinstitutional cooperation and increased awareness of the need for reporting.

⁸ An internationally recognized standard for implementing effective money laundering and TF prevention measures.

transactions, anonymity of counterparties, absence of central control mechanism, etc.), including that it is also used for TF purposes.

5.19. In addition, there is a need to improve knowledge of online fundraising for TF purposes, which may become more intense in the near future.

5.20. Authorities involved in TF prevention activities should organize internal training using experience or other materials, for example, FATF reports relevant to the field of activity, materials of events at international level, etc. In addition to raising awareness of TF field, awareness of the current threat situation needs to be constantly updated.

5.21. Taking into account that terrorists are constantly looking for new ways how to financially provide and carry out attacks, regular training and awareness-raising measures of TF prevention authorities on current TF prevention issues shall be carried out. It must be a continuous process that allows us to master every new trend of terrorist threat and TF type. A good understanding of TF threat/risk plays an important role in identifying and terminating TF schemes. Awareness of TF threats/risks allows for more effective prioritization of actions to prevent TF more effectively in the current situation and in the future.

5.22. According to Consolidated FATF Strategy, a better awareness of the methods used by terrorists to raise funds and methods of money transfers enable the authorities involved in the prevention of TF to carry out preventive measures more effectively and accurately. Raising awareness also enables us to identify weaknesses in TF prevention measures and to develop measures for rectification of deficiencies.

An approach based on qualitative risk assessment

5.23. Each authority involved in TF prevention should plan its resources and activities so that priority is given to measures to mitigate the risks identified. At the same time, due care must be taken to ensure that other duties within the competence of the relevant authority are performed.

5.24. The risk assessment also needs to identify those elements that can be used in internal control mechanisms (for example to build typologies). A qualitative NRA is essential in implementing this approach. As a result of a comprehensive analysis, it must identify all TF risks that may affect the Latvian financial system⁹

5.25. In order to ensure the further development of the prevention of TF, it is necessary to draw conclusions about the identified TF cases and other examples of practice. In addition, the practice, identified tendencies of other European countries should be analysed and its compatibility with the specific conditions of Latvia should be evaluated. Results of the mentioned analysis should be taken into account both in the preparation of NRA and in the updating of the guidelines and internal procedures of the authorities involved in the prevention of TF, so as to continually improve the effectiveness of TF prevention. Each new identified TF case in Latvia/Europe or an example of good practice may be sufficient justification for revising existing operational guidelines.

Prevention of identified vulnerabilities

5.26. One of the key priorities in preventing the identified vulnerabilities is to strengthen the oversight and internal control mechanisms of Latvian financial service providers to more effectively identify TF transactions, especially transit transactions, which, according to the TF/PF risk report, are most likely to occur. The Latvian financial sector should continue to improve its automated internal control systems in order to maintain a high level of effectiveness in identifying TF cases. On the other hand, FCMC should continue to take active control measures to identify remaining shortcomings. There is a need to banking and also the non-banking sector, particularly customer due diligence procedures by using the most appropriate technological solutions available.

⁹ Example: The terrorist threat assessment of European countries, including Latvia, as well as the information provided by the FATF, shows that in most cases terrorist attacks are financed by small-scale transactions. Consequently, authorities involved in the prevention of TF, when carrying out internal control measures, should also pay attention to small-scale transactions that exhibit TF features.

5.27. When training and raising awareness of TF threats/risks among authorities involved in TF prevention, special attention should be paid to raising the level of knowledge among employees in the non-banking sector:

- solutions should be found for control and supervision of off-site financial services to reduce their potential to be used for TF purposes;
- solutions should be found to help more effectively check the sources of donations received by NGOs and control their use to prevent their use for TF purposes.

Effective planning of prevention and response measures

5.28. Each authority involved in TF prevention when planning TF prevention and response measures, including internal controls, should take into account the basic principles contained in this strategy. When adapting the measures to be taken to the current threat situation, also examples of good practice identified within the framework of international and interinstitutional cooperation should be taken into account.¹⁰

5.29. An important sector that requires control and oversight to plan TF prevention measures, is transactions in virtual currencies. As mentioned above, terrorists are constantly looking for new ways to provide and carry out attacks without attracting attention of security services. Transactions in virtual currencies is one of the appropriate types of TF transactions. The planned prevention and response measures should include options and ways to prevent or limit the online collection of donations for TF purposes, since these TF activities may be used more and more frequently in the near future.

¹⁰ Example: by applying a qualitative threat assessment approach - by reading the relevant risk/threat assessments - it can be identified that Latvia is likely to be an interspace rather than country of origin or destination in the flow of TF funds. Taking it into account, the authorities involved in TF prevention focus their prevention and control activities on identifying and preventing transit attempts on TF funds.

6. Implementation of TF prevention strategy

6.1. When planning and carrying out their responsibilities within its competence, authorities involved in TF prevention should take into account the strategic framework described in this document.

6.2. The strategic guidelines referred to in this document shall be reviewed at least every three years or more frequently if the strategic approach to TF prevention (for example, new FATF strategic guidelines) has changed significantly at international level and agreed by TF prevention authorities (for example, within the framework of FSDB).
