

APPENDIX 3. THE ESTONIAN ANTI-MONEY LAUNDERING SYSTEM PASSED ITS MONEYVAL EVALUATION

Accusations of money-laundering at banks in Estonia over the past decade have brought the Estonian financial system under sharper focus. Together with this, the supervision of the Estonian financial sector has become much more effective in recent years. The supervisory framework of the Estonian financial sector was evaluated thoroughly in 2021-2022 by Moneyval, the expert committee of the Council of Europe fighting against money laundering and terrorist financing. The assessment looked at compliance with international standards for countering money-laundering and terrorist financing and how effectively they were applied. Moneyval is the expert committee of the Council of Europe that is responsible for evaluating how anti-money laundering measures are applied in member states of the Council of Europe that are not members of the international Financial Action Task Force (FATF²⁸).

The Moneyval report gives an evaluation of the capacity of a given country to fight against money laundering and makes recommendations for how the anti-money laundering and terrorist financing framework could be made more efficient. The nature of the recommendations and how they should be executed then shape the subsequent supervisory measures, on which the international credibility of the country and its consequent ability to bring in foreign investment then depend. The evaluations by Moneyval have a large impact on this, as they are used in risk assessments by private investors, financial institutions, European Union institutions, the IMF, the World Bank, the OECD, and others. If Moneyval finds major deficiencies in the anti-money laundering framework of the country under evaluation, that country could suffer a substantial hit to its reputation and find that its investment climate deteriorates. Countries with deficiencies can be placed on the grey list or the black list.

The grey list is for countries considered to be jurisdictions with a higher risk of money laundering, where there are significant strategic deficiencies in how the regimes to counter money laundering are run. Increased care and attention must be taken when dealing with companies and people from such countries, and making settlements with those people and companies is much more complicated and time consuming, while banks need to apply much greater due diligence measures to establish the sources of money. Banks in those countries may also lose access to payments in foreign currencies, as correspondent banks may no longer be interested in providing services to them. It becomes more expensive for countries that are on the grey list and for companies based in them to access funding from markets, hurting the international competitiveness of the country and of its businesses. There were 23 countries on the grey list in February 2023.

Countries that do not cooperate sufficiently with the evaluation or meet the action plan for it are put onto the black list, meaning essentially that cooperation with the financial institutions of those countries is forbidden. There were three countries on that list in February this year, which were Iran, North Korea and Myanmar²⁹.

The Moneyval evaluation report³⁰ for Estonia was published in January 2023. The effectiveness of the anti-money laundering framework in Estonia was evaluated in the final report in 11 areas on a four-point scale³¹. Larger deficiencies were found in Estonia in eight areas, which were then

28 The FATF is an intergovernmental body that sets the standards and methods for countering money laundering and terrorist financing. <https://www.fatf-gafi.org/>.

29 <https://www.fatf-gafi.org/en/countries/black-and-grey-lists.html>.

30 Final report from Moneyval <https://rm.coe.int/moneyval-2022-11-mer-estonia/1680a9dd96>.

31 The effectiveness of the anti-money laundering framework of a country is assessed as: 1) high; 2) substantial; 3) moderate; or 4) low.

evaluated as being of average effectiveness. The level in the other three areas was fairly good though, and their effectiveness almost merited the highest possible score.

Like the risk assessments that have been carried out domestically in Estonia, the Moneyval report emphasised the need for additional regulation around the e-residency programme and around establishing companies and providers of virtual currency services. The main concern about the virtual currency services is that some of them are only connected to Estonia in a formal sense, which makes it extremely difficult to carry out supervision over them. Some service providers also lack the necessary solutions for minimising money-laundering and terrorist financing risks. A large amount of work has however already been done on this. The number of providers of virtual currency services has dropped substantially in just a few years, as licences were removed from companies that did not meet the requirements. The Moneyval report recognised the work of the Financial Intelligence Unit, which has substantially increased its capacity in recent years. The national and international cooperation by Estonia was also highlighted, as this helps ensure that high-quality information can move quickly and that the effectiveness of sanctions can be monitored.

Although the report identified shortcomings in areas where improvement was needed, Moneyval evaluated the work of Estonia against money-laundering and terrorist financing to be effective, and so Estonia was not placed on the grey list. To make sure the framework stays effective and that Moneyval continues to find so in future, carrying out the recommendations must be a top priority. This must however be done in a way that does not hinder innovation and the introduction of new solutions in the financial system.