

The Impact of Digital Currencies on Money Laundering in Kyrgyzstan: Opportunities,  
Challenges and Regulatory Approaches

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## **Abstract**

This research suggests the exploration of the impact of digital currencies on money laundering in Kyrgyzstan. The main goal of this research is to address the gap of knowledge surrounding the occurrence, methods, and regulatory challenges associated with money laundering facilitated by digital currencies in the country. Through the implementation of a qualitative methodology, this investigation provides insights into the usage of digital currencies for illicit financial activities, as well as propose effective regulatory measures to mitigate related risks.

**List of abbreviations**

AML: Anti-Money Laundering

DEX: Decentralized Exchanges

FATF: Financial Action Task Force

FIU: Financial Intelligence Unit

KYC: Know Your Customer

MiCA: Markets in Crypto-Assets

P2P: Peer-to-Peer

TFR: Travel Rule Framework

VA: Virtual Assets

VASPs: Virtual Asset Service Providers

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## Introduction

Cryptocurrency, a digital or virtual form of currency that utilizes cryptographic technology for secure transactions, has gained significant attention worldwide. “It operates on decentralized systems, typically based on blockchain technology, which ensures transparency, immutability, and security. Cryptocurrencies are not issued or regulated by any central authority, such as a government or financial institution”.<sup>1</sup> “Blockchain technology is a ledger that records transactions across multiple computers or nodes in a secure and transparent manner. It operates through a series of interconnected blocks, each containing a list of verified and encrypted transactions. The blocks are linked using cryptographic hashes, creating an unalterable chain of records. Blockchain technology enables peer-to-peer transactions, eliminates the need for intermediaries, and provides immutability and transparency to the stored data”.<sup>2</sup>

In Kyrgyzstan, the adoption and use of cryptocurrency have been on the rise, presenting both opportunities and challenges for the country's financial landscape. The popularity of cryptocurrency trading can be attributed to various factors, including the country's relatively young population, widespread internet access, and growing economic instability.

This paper suggests examining the effects of digital currencies on money laundering in Kyrgyzstan. The primary objective of this research is to tackle the gap of knowledge surrounding the incidence, techniques, and regulatory framework related to money laundering that is enabled by digital currencies in the region. By employing a quality methods approach, this research aims to bring valuable insights into exploring of misuse of digital currencies for unlawful financial activities, as well as offer effective regulatory approaches to diminish associated risks.

The study starts with an exhaustive scrutiny of the present literature on digital currencies, money laundering, and regulatory approaches. This scrutiny is beneficial in establishing a theoretical framework and in identifying knowledge gaps. The research uses data analysis to identify potential characteristics of money laundering activities facilitated by digital currencies in Kyrgyzstan. In addition, in-depth interviews have been conducted with the main

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<sup>1</sup> Adam Hayes, “Blockchain Facts: What Is It, How It Works, and How It Can be used”, last modified April,23 2023  
<https://www.investopedia.com/terms/b/blockchain.asp>

<sup>2</sup> Buterin, V. (2014). Ethereum White Paper: A Next-Generation Smart Contract and Decentralized Application Platform.  
<https://ethereum.org/whitepaper>

stakeholders, such as government officials, law enforcement agencies, and financial institutions and cryptocurrency industry experts. These interviews brought important insights into understanding the regulatory framework, enforcement practices, challenges, and perspectives surrounding money laundering associated with digital currencies in Kyrgyzstan. Moreover, the analysis entails an examination of legal and regulatory documents to comprehend the current regulatory mechanisms and define gaps in combating money laundering facilitated by digital currencies.

The research is significant as it addresses the pressing need to apprehend the impact of digital currencies on money laundering in Kyrgyzstan. By bridging the knowledge gap in this specific context, the findings of this study will make a contribution to the formulation of effective strategies and policies designed to tackle money laundering and ensure the integrity of the country's financial system. The proposed methodology, encompassing desk research, interviews, case studies and documents analysis, provide a comprehensive investigation into the involvement of digital currencies in money laundering activities in Kyrgyzstan.

The timeframe for the development of this thesis extends over 7 months, enabling an opportunity for thorough data collection, analysis, and the formulation of regulatory recommendations. Nonetheless, it is important to acknowledge the potential constraints posed by certain factors, including the availability of reliable and current information, as well as the challenges associated with accessing sensitive data pertaining to ongoing investigations of money laundering cases. Nonetheless, through the employment of qualitative approach and the exploitation of pre-existing sources, the objective of this research is to overcome such limitations and provide a comprehensive analysis of digital currency-enabled money laundering in Kyrgyzstan.

## **1.1 Background information on money-laundering and cryptocurrency usage in Kyrgyzstan**

In Kyrgyzstan cryptocurrencies are recognized as virtual assets (VAs) and their usage has been initially rationalized by the need for the progression of digital technologies, the digitization process, and ultimately, the shift towards a digital economy. This is in line with the global practice, where nations that previously prohibited virtual assets are now reassessing their approach in favor of establishing a legal framework and regulation. And Kyrgyzstan in turn acknowledges the need in building corresponding regulative system rather than totally banning the usage of cryptocurrencies.

In accordance with the laws of the Kyrgyz Republic, Bitcoin (as well as the rest cryptocurrencies) is categorized as a commodity rather than a security or means of payment<sup>3</sup>. As a result, individuals are permitted to engage in lawful activities such as mining, purchasing, selling, and trading digital currencies on a local commodity exchange. However, the utilization of cryptocurrencies as a currency for domestic settlements is the subject to certain limitations and restrictions.

According to the report of the State service of financial intelligence of the Kyrgyz Republic (FIU) the total volume of cryptocurrency transactions made with the involvement of locally registered virtual assets service providers (exchange points) in Kyrgyzstan formed 7 635 174 903 soms.<sup>4</sup> And it is also expected to reach 167,50k users in cryptocurrency market by 2027 in Kyrgyzstan with the revenue resulting in the projected amount of US\$ 335,70k by 2027.<sup>5</sup>

According to reports of regulatory authorities, surveys, and focus group discussions with the private sector<sup>6</sup>, the most prevalent form of VAs in the Kyrgyz Republic are Stable Coins, specifically USDT from Tether Limited. USDT is equal to the US dollar, rendering it the most favored type of cryptocurrency for executing operations in the Kyrgyz Republic. As per the analysis of cryptocurrency-related cases, Stable Coins represent the predominant variety of cryptocurrencies involved in criminal activities. The principal categorizations associated with virtual assets are criminal proceeds involving the activity of foreign Virtual Asset Service Providers (VASPs), i.e. international exchanges and stock exchanges; acquisition of cryptocurrencies through fraudulent means and theft; the act of laundering funds by utilizing cryptocurrencies; transferring funds to unlicensed foreign VASPs. The overall estimated

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<sup>3</sup> “Zakon Kyrgyzskoy Respubliki o virtualnykh aktivah”, January, 21, 2022  
<http://cbd.minjust.gov.kg/act/view/ru-ru/112346?cl=ru-ru#:~:text=Закон%20КР%20от%2021%20января.№%2012%20%22О%20виртуальных%20активах%22&text=Целью%20настоящего%20Закона%20является%20регулирование,%20выпуск%20хранение%20и%20обращение.>

<sup>4</sup> “Otchet ob otsenke riskov finansirovaniya terroristicheskoy deyatelnosti i legalizatsii (otmyvamiya) prestupnykh dohodov v sektore virtualnykh aktivov i postavshikov uslug virtualnykh aktivov”, (open version), Cabinet of Ministers of the Kyrgyz Republic, July 2023, p10

<sup>5</sup> “Cryptocurrencies - Kyrgyzstan.” September 09, 2023.  
<https://www.statista.com/outlook/dmo/fintech/digital-assets/cryptocurrencies/kyrgyzstan>

<sup>6</sup> “Otchet ob otsenke riskov finansirovaniya terroristicheskoy deyatelnosti i legalizatsii (otmyvamiya) prestupnykh dohodov v sektore virtualnykh aktivov i postavshikov uslug virtualnykh aktivov”, (open version), Cabinet of Ministers of the Kyrgyz Republic, July 2023, p18



economic harm resulting from cryptocurrency-related crimes and the monetary value implicated in these crimes amounted to 127.7 million soms<sup>7</sup>. The same source indicates that the principal kinds of VASPs involved in criminal acts are unlicensed VASPs operating within the Kyrgyz Republic and foreign VASPs operating outside the country but providing services to the clients in the Kyrgyz Republic.

This information offers insight into the diverse methods by which criminals employ cryptocurrencies for illegal activities. Notably, the utilization of foreign trading platforms to convert illicit proceeds into digital currencies signifies a cross-border dimension to these crimes, potentially rendering them more complexity to investigate and prosecute. And the popularity of certain types of cryptocurrencies accentuates the significance within the local context and their potential usage in both lawful and unlawful transactions. Another issue of unlicensed exchanges, both within the Kyrgyz Republic and those foreign ones serving Kyrgyz clients, play a substantial role in cryptocurrency related crimes. This finding underscores the importance of regulating exchange and trading service providers and enforcing compliance with Anti-money laundering (AML) and Know-your-customer (KYC) regulations to mitigate criminal activities within the cryptocurrencies sector.

In terms of regulatory measures, Kyrgyzstan has taken initial steps to address the use of cryptocurrency within its jurisdiction. In 2014, the National Bank of the Kyrgyz Republic issued a statement warning about the risks associated with cryptocurrencies and stating that they are not recognized as a legal tender in the country<sup>8</sup>.

Until recently, the primary focus of the government was primarily on miners, specifically concerning taxation matters. However, in August 2022, the implementation of the "On virtual assets" law in Kyrgyzstan brought about clearer regulations and guidelines for participants in the cryptocurrency market.

Despite these developments, there are still several pending documents concerning the regulation of the cryptocurrency market. This regulatory gap poses challenges for both cryptocurrency users and regulatory authorities in ensuring the integrity of financial systems

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<sup>7</sup> “ Otchet ob otsenke riskov finansirovaniya terroristicheskoy deyatelnosti i legalizatsii (otmyvaniya) prestupnyh dohodov v sektore virtualnyh aktivov i postavshikov uslug virtualnyh aktivov”, (open version), Cabinet of Ministers of the Kyrgyz Republic, July 2023, p19

<sup>8</sup>“Predostorejenie Natsionalnogo Banka Kyrgyzskoy Respubliki otnositelno rasprostraneniya i ispolzovaniya “virtualnih valut””, July, 15, 2014

<https://www.nbkr.kg/printver.jsp?item=31&lang=RUS&material=50681>

and combating potential risks, including money laundering. For example, the activity of on-line exchange platforms registered abroad is not being regulated anyhow. Although the main bulk of transactions are presumably taking place there.

Kyrgyzstan, like many countries, recognizes the potential national security risks associated with the usage of cryptocurrencies. The relative pseudonymous nature of cryptocurrency transactions and their potential use in illicit activities, including money laundering and terrorism financing, raise concerns for law enforcement agencies. Today, according to Financial intelligence unit, the most wide spread types of money-laundering in place are cash smuggling, bank transfers, operations with the involvement of exchange points, casinos and betting companies, hawala based transfers<sup>9</sup>. Nevertheless, the low official level of crypto crimes within the country can be explained by the weak capacity of authorities and overall financial system that fails to detect these cases as well investigate and prevent them. Meanwhile, the number of predicate crimes that fuel money laundering in Kyrgyzstan (organized crime activity, human trafficking, drug trafficking, financing terrorism) cause a serious threat to the country's security.

Kyrgyzstan, as a member of international organizations and initiatives, including the Eurasian Group on Combatting Money Laundering and Financing of terrorism (EAG) and the Financial Action Task Force (FATF), is committed to aligning its regulatory efforts with international standards. The FATF, an intergovernmental body that sets global standards for AML/CFT, has issued recommendations and guidance related to cryptocurrencies. Kyrgyzstan's regulatory framework is expected to be influenced by these international standards and collaborative efforts.

Given the evolving nature of cryptocurrency and its potential impact on financial systems, regulatory authorities in Kyrgyzstan are exploring ways to address the challenges associated with cryptocurrency use. This includes considering measures to prevent money laundering, enhance consumer protection, ensure taxation compliance, and promote the development of a secure and transparent cryptocurrency ecosystem.

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<sup>9</sup> “Otchet GCFR otmyvanie dohodov”, 2016

 <https://fiu.gov.kg/uploads/5845572201a63.docx>

## **1.2 Research Question**

The central research question of this paper is: "How has the emergence of cryptocurrency impacted the prevalence and methods of money laundering in Kyrgyzstan?" This question aims to explore the specific dynamics of cryptocurrency-enabled money laundering and its implications for the financial system and anti-money laundering efforts in Kyrgyzstan.

Based on preliminary observations, it is hypothesized that the emergence of cryptocurrency starts to affect the prevalence and methods of money laundering in Kyrgyzstan. It is anticipated that cryptocurrency adoption has provided money launderers with new avenues for hiding the origins and destinations of illicit funds, bypassing traditional financial controls, and exploiting specific features of cryptocurrency to facilitate money laundering activities.

Through this research, it is expected to uncover the specific mechanisms and techniques employed in using cryptocurrency for money laundering in Kyrgyzstan. Furthermore, the study aims to identify the regulatory and policy measures necessary to mitigate the risks associated with cryptocurrency-related money laundering in the country. By addressing these research objectives, the findings of this study can contribute to the formulation of effective strategies and policies to combat money laundering and ensure the integrity of Kyrgyzstan's financial system.

## **1.3 Research importance**

The choice of this topic stems from the increasing global interest in the impact of cryptocurrency on financial systems and the urgent need to address the risks associated with its misuse. Kyrgyzstan, as a developing country in Central Asia, provides a unique context for studying the role of cryptocurrency in money laundering. While there is limited research on this specific topic in the Kyrgyzstani context, it is crucial to shed light on this issue due to several reasons.

Firstly, the prevalence of money laundering poses a significant threat to the stability and integrity of the financial system in Kyrgyzstan. As a transitional economy, the country is vulnerable to various forms of illicit financial activities, including money laundering. Understanding the role of cryptocurrency in this context can help policymakers and regulatory bodies develop effective measures to combat money laundering and protect the integrity of the financial system.

Secondly, the rise of cryptocurrency adoption in Kyrgyzstan raises concerns about the potential misuse of this technology for illicit purposes. While cryptocurrency offers advantages such as faster and cheaper transactions, its decentralized nature and relative pseudonymity make it attractive to money launderers. Investigating the extent to which cryptocurrency is utilized as a tool for money laundering in Kyrgyzstan is crucial for developing targeted regulatory and enforcement strategies.

#### **1.4 Scope and Limitations**

One of the main challenges faced in this research is the lack of easily accessible, trustworthy, and up-to-date information concerning digital currencies and their involvement in money laundering in Kyrgyzstan. The embryonic nature of digital currencies in the country creates difficulties in obtaining official data for analysis. This limitation has the potential to hinder the accuracy and comprehensiveness of the research findings, necessitating careful consideration of data sources and their limitations.

Another significant constraint is the scarcity of existing research on the impact of digital currencies on money laundering in Kyrgyzstan. The absence of extensive prior research in this specific area requires reliance on international studies and broad trends, which may not fully capture the unique dynamics of the Kyrgyzstani context. This limitation emphasizes the need for cautious interpretation and generalization of the findings.

Governmental and law enforcement organizations often treat money laundering cases as sensitive issues. Consequently, I faced a reluctance to disclose extensive details about ongoing investigations or specific cases related to money laundering with involvement of digital currencies. This shortcoming also affects the ability to directly obtain primary data from these entities, potentially leading to reliance on secondary data sources that may not provide the depth of information required for correct analysis.

Due to the aforementioned challenges, there is a risk of relying on secondary data sources, such as reports from international organizations or aggregated data from various government agencies. While these sources can offer valuable insights, they may lack the level of details necessary to analyze specific case studies or nuanced local trends. This reliance on secondary data may limit the depth of the research.

Despite these limitations, the research aims to contribute to a broader understanding of the topic both within Kyrgyzstan and in the international context.

## **Literature Review**

### **2.1 Main findings and arguments of existing scholarship on cryptocurrency involvement into money-laundering processes**

The emergence and proliferation of cryptocurrencies have raised concerns regarding their potential employment for money laundering activities. This literature review undertook an analysis of the works of scholars in the area of money laundering and cryptocurrency, with a particular emphasis on their findings, limitations, and the gaps they have left for further investigation. The objective of this review is to provide a discussion of fundamental themes, and insights into the present state of knowledge and identify areas for future exploration.

Review starts with analysing prominent works on money laundering in general<sup>10</sup>. These studies provide comprehensive overview of the nature, causes and dynamics of this phenomenon. The examination resulted in the classification of the scholarly literature on money laundering encompassing the main actors involved in money-laundering, impact of money laundering on economy, the scale of money laundering, new opportunities for money laundering and the framework and effectiveness of AML. In accordance with the main focus of the work the further review narrowed down within the last two categories.

Numerous research works have scrutinized the prospects that digital currencies offer for the purpose of money laundering<sup>11</sup>. They made significant contributions to the comprehension of the anonymity and vulnerabilities of cryptocurrencies, with a particular emphasis on money laundering. These researches highlight the potential exploitation of cryptocurrencies for illicit purposes. Some of them discovered that the prominent catalysts for their usage as the new methods of money laundering were the anonymity of virtual

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<sup>10</sup> Michael Levi, "The Phantom Capitalists: The Organisation and Control of Long Firm Fraud" by Michael Levi (1996); Peter Reuter, "Money Laundering: The Economics of Regulation" by Peter Reuter and Edwin M. Truman (1986)

<sup>11</sup> Christian Brenig, "Economic Analysis of Cryptocurrency Backed Money Laundering"; Chad Albrecht, Kristopher McKay Duffin, Steven Hawkins, Victor Manuel Morales Rocha, "The use of cryptocurrencies in the money laundering process"; Valeriia Dyntu, Oleh Dykyi, "Cryptocurrency in the System of Money Laundering"

currency transactions and the lack of regulatory oversight<sup>12</sup>. On the contrary, in their investigation of cryptocurrencies and the risks they pose in terms of money laundering and financing terrorism, other scholars found that the feature of anonymity is unlikely to make them popular among users. According to them, cryptocurrencies have limitations in terms of negotiability, risk, and the requirement for specialized training<sup>13</sup>. As such, the lack of universal acceptance for cryptocurrencies necessitates their exchange for traditional fiat money at some point. Additionally, most of cryptocurrencies are not evenly distributed and are highly volatile, which diminishes their attractiveness. Nevertheless, additional inquiry is necessary to explore the degree to which these vulnerabilities manifest in concrete cases of money laundering and to create more focused measures for mitigation.

The main bulk of literature on the regulations is mainly related to the releases of such international institutions as FATF, IMF, World bank and works of Chainanalysis and Elliptic data platforms<sup>14</sup>. FATF urges member nations to implement robust regulatory measures on the cryptocurrency industry in order to protect national security interests and uphold the integrity of the financial system. It places great emphasis on minimizing risks within the realm of cryptocurrencies and stresses the importance of comprehensive regulations aimed at combating money laundering and terrorist financing<sup>15</sup>. The intricate matter of categorizing cryptocurrencies in a legal sense and the potential consequences they may have on different legal and financial facets is emphasized by the World Bank. While not explicitly portraying crypto money laundering as a threat to national security, the World Bank emphasizes the significance of regulatory clarity within the crypto realm in order to guarantee financial stability and safeguard investors. The primary focus of the World Bank lies in addressing the multifaceted challenges presented by cryptocurrencies, taking into account a broader

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<sup>12</sup> Stuhlmiller, L. (2013), *Mitigating virtual money laundering: An analysis of virtual worlds and virtual currencies*, in Lynch, S. (Ed.), Utica College, New York, NY.

<sup>13</sup> Dostov, V. and Shust, P. (2014), "Cryptocurrencies: an unconventional challenge to the AML/CFT regulators?", *Journal of Financial Crime*, Vol. 21 No. 3, pp. 249-263.

<sup>14</sup> Chainanalysis, "The 2022 Geography of Cryptocurrency Report, Everything you need to know about crypto adoption around the globe", 2022; Elliptic, "Preventing financial crime in crypto assets", Typologies report, 2023;

<sup>15</sup> FATF, "International standards on combating money laundering and the finance of terrorism & proliferation", February 2023

perspective that encompasses financial stability and legal considerations<sup>16</sup>. Unlike the FATF, the IMF does not explicitly categorize crypto money laundering as a threat to the security of a nation. Its primary concentration lies in macro-financial discussions related to digital currencies. While IMF does express apprehension regarding the possible impact of cryptocurrencies on currency steadiness and capital movement, it accentuates the significance of wise monetary and fiscal strategies<sup>17</sup>.

These institutions recognize the potential advantages and drawbacks linked to digital currencies, encompassing their accessibility to exploitation by criminal elements and terrorist networks and stress the significance of establishing regulations for cryptocurrencies as a preventive measure against money laundering and financing terrorism.

Very few case studies and empirical research efforts were undertaken to shed light on the specific instances of money laundering involving digital currencies in Central Asia and Kyrgyzstan<sup>18</sup>. They do provide valuable insights into the strategies employed by criminals and the challenges faced by law enforcement agencies in the region, but lack assessing of the level of cryptocurrency involvement in money laundering as well as suggesting possible scenarios on further developments. Besides, these works have serious limitations regarding introducing tailored mechanisms to counter this kind of money laundering in the country and in the region as a whole.

The literature cited herein collectively underscores the importance of studying the effects of digital currencies on money laundering within the context of Kyrgyzstan. While international studies highlight the global relevance of the issue, local studies reveal the need in further investigation to identify specific challenges and regulatory approaches. Upon conducting an analysis of existing literature regarding money laundering and cryptocurrencies, it has been determined that the issue of detecting money laundering through cryptocurrencies in the Kyrgyz Republic has not received significant attention. The current body of literature primarily focuses on regulations that relate to international standards and their applicability within the local context. This gap can be attributed to several factors. Firstly, the usage of cryptocurrencies is still in its embryonic stage, thereby resulting in a

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<sup>16</sup> World Bank Group, “Cryptocurrencies and blockchain, Europe and Central Asia Economic Update”, May 2018

<sup>17</sup> IMF, “IMF Policy paper elements of effective policies for crypto assets”, February, 2023

<sup>18</sup> Daniyar Sarbagishev, Mergen Dyussenov, “From Dusk to Dawn: Analysis of Anti-Money Laundering and Financing of Terrorism (AML/CFT) through Policymaking Stages in Kazakhstan and Kyrgyz Republic”; Chudinovskikh M., Sevryugin V, “Cryptocurrency regulation in the BRiCS countries and the Eurasian Economic Union”; Khalida Ganieva, Tamara Ganieva, “Legal Regulation of Cryptocurrency as Factor of Sustainable Development of Business”; Saikal Anvar kyzy, Gregory J. Dunn, “Chain and Silk: Alternative futures of blockchain governance in Kyrgyzstan”.

scarcity of data regarding the extent of their usage within the country. Secondly, there is a lack of reliable data concerning money laundering in Kyrgyzstan as a whole. Lastly, the lack of interest among local academia in investigating this topic serves as a third contributing factor.

## **2.2 Theoretical Framework**

This paper uses Technological determinism as a core theory that is to prove above mentioned hypothesis. Technological determinism posits that technology plays a significant role in shaping and influencing social, economic, and cultural phenomena. The emergence of this theory is commonly ascribed to Thorstein Veblen<sup>19</sup>, the American sociologist who elaborated the causal nexus between technology and society. Other important contributions are provided by Marshall McLuhan and Neil Postman offering significant perspectives on the concept of Technological determinism and its effects on diverse spheres of society<sup>20</sup>.

When examining the role of cryptocurrency in money laundering, the Technological determinism theory helps explain how the characteristics and functionalities of cryptocurrency contribute to its potential use in illicit activities. This theory is applied within the following perspectives:

Technology as a driving force: according to technological determinism, advancements in technology can drive changes in social behaviors and practices. In the case of cryptocurrency, its emergence and unique features, such as decentralization, pseudonymity, and ease of cross-border transactions, have created new opportunities for money laundering. The more attractive it becomes when country lacks symmetric regulatory mechanisms as in Kyrgyzstan.

The most important value any technological innovation brings is minimizing or sometimes a full substitution of humans in all the stages of production, communication or any other sphere. In this regard the attractiveness of using blockchain technologies for everybody (not only for criminals) lays in the absence of human factor. The minimal involvement of humans (for example, bank officials) serves as a principal factor to choose the cryptocurrency transaction over traditional one. In other words, people trust technologies more than people

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<sup>19</sup> Thorstein Veblen, "The theory of the Leisure Class: An Economic Study of Institutions" (1899)

<sup>20</sup> Marshall McLuhan, "Understanding Media: The Extensions of Man" (1964); Neil Postman, "Technopoly: The Surrender of Culture to Technology" (1992)



who actually proved to be the source of all kinds of mistakes. And as for money-launderers, the minimal involvement of humans also means the less risk to be exposed.

Anonymity is another reason for money launderers to exploit cryptocurrencies. Access to cryptocurrencies often requires minimal identification, enabling individuals, including criminals, to benefit from this opportunity. Numerous cryptocurrencies provide a certain level of pseudonymity, wherein transactions are not directly linked to real-world identities. Instead, transactions are scrupulously documented on a publicly accessible ledger featuring cryptographic addresses. “Two different keys are used, one for encrypting and another for decrypting. In practice, the private key is used for signing the blockchain transactions (i.e., to approve such transactions), while the public key works like a unique address”<sup>21</sup>. Criminals can exploit this pseudonymity to perform transactions without disclosing their true identities. By utilizing various wallets and mixers (services that merge and rearrange transactions), they can obscure the origin and destination of funds. Consequently, this poses a significant challenge for law enforcement agencies seeking to trace the movement of illicit funds. Moreover, cryptocurrency transactions operate beyond the limits of the traditional banking system, thereby decreasing the scrutiny imposed by financial institutions and regulators. Criminals may exploit this regulatory gap. Nonetheless, it is crucial to acknowledge that while cryptocurrencies offer relative anonymity and privacy, they are not completely immune to investigation and prosecution. Furthermore, it is important to note that not all cryptocurrencies provide the same level of privacy, as some, such as Bitcoin, are less anonymous than others.

Decentralized nature of cryptocurrency transactions is another attractive feature to be misused by money-launderers. Cryptocurrencies enable the facilitation of direct peer-to-peer transactions, thereby eliminating the necessity for intermediaries such as banks. “Prior to the emergence of blockchain solutions, there was no mechanism for making payments over electronic networks without a trusted third party”<sup>22</sup>. Illicit actors have the ability to execute transactions without the involvement of financial institutions, thereby mitigating the chances of detection. The lack of a central entity poses a great challenge for authorities to immobilize or oversee funds, thus providing money launderers with a sense of assurance. Within

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<sup>21</sup> T. Fernandez-Carames, P. Fraga-Lamas, “A review on the use of blockchain for the internet of things”, IEEE Access 6 (2018).

<sup>22</sup> S. Heister, K. Yuthas “Technology in Society” (2020)

conventional financial systems, governing bodies and financial institutions possess the ability to immobilize or appropriate assets suspected of involvement in illicit activities.

Easiness of cross-border transactions can also be exploited by money-launderers. Decentralized digital currencies can be accessed from any location equipped with an internet connection. Individuals engaged in money laundering possess the ability to quickly and effortlessly transfer funds across national borders, thus escaping the strains of jurisdictional boundaries and presenting challenges to law enforcement agencies in coordinating cross-border investigations. Furthermore, cryptocurrencies possess the ability to be conveniently converted into alternative cryptocurrencies or conventional fiat currencies via online platforms for trading. Cryptocurrency transactions frequently exhibit superior speed and efficiency in comparison to traditional cross-border transfers, which can span over multiple days. Moreover, conventional cross-border transactions entail charges and exchange rates losses. Whilst, cryptocurrency transactions can be economically advantageous, particularly for substantial amounts of money. Criminals can optimize the value they preserve by avoiding these fees.

Technological determinism also explains how technology can shape criminal techniques: the adoption of cryptocurrency has influenced the strategies and techniques employed by money launderers. They exploit the features of cryptocurrencies to obfuscate transaction trails, mix funds, and convert illicit proceeds into digital assets, thereby facilitating the process of laundering money. In this way, technology determines certain preferences with further shaping specific behavioural tactics. In order to escape more pressing counter measures applied by authorities, criminals start using more sophisticated techniques. Cryptocurrency tumblers and mixers are utilized by money launderers to exploit their funds, as these services are specifically crafted to obfuscate the origin of the money by blending it with lawful transactions. “By sending illicitly gained funds through a mixer or privacy wallet before depositing them into an exchange, criminals can obfuscate the source of those funds. This helps them to give the appearance that certain cryptoassets may not have a nexus to the fraud, theft, or other problematic event that they, in fact, do. Use of these obfuscation technologies reduces the likelihood that the illicit source will be picked up by an organization’s compliance systems”<sup>23</sup>. This intricate procedure renders the differentiation

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<sup>23</sup> Elliptic connect, “Crypto Money Laundering Explained: Mixers and Privacy Wallets”, June 2023  
<https://hub.elliptic.co/analysis/crypto-money-laundering-explained-mixers-and-privacy-wallets/>

between untainted and unlawful funds exceptionally difficult, thereby adding an additional layer of complexity for law enforcement authorities.

The emergence of cryptocurrencies as a technological innovation has also impacted the regulatory frameworks. Technology, such as cryptocurrencies, possesses a double-edged nature, often presenting both opportunities and challenges. In response to the increasing adoption of cryptocurrencies in illicit activities, such as money laundering, law enforcement agencies have taken proactive measures, focusing on the development of innovative tools and techniques. These tools aim to track cryptocurrency transactions and expose unlawful activities.

For instance, machine learning and artificial intelligence algorithms are employed to identify inconsistency in cryptocurrency transactions. These algorithms have the capacity to detect unusual transaction patterns, assisting investigators in identifying potentially illicit activities.

Sophisticated blockchain analysis tools, such as Chainalysis and CipherTrace<sup>24</sup>, are utilized to track and monitor cryptocurrency transactions. These tools employ various algorithms to analyze blockchain data, recognize suspicious patterns, and connect wallet addresses to individuals or entities.

This counteractive paradigm illustrates how technology-driven innovations, like cryptocurrencies, not only present unprecedented challenges but also foster the creation of solutions. The ongoing evolution of regulations and improvement of investigative capabilities by law enforcement agencies exemplify society's ability to adapt to the ever-changing technological landscape, ensuring that these innovations are utilized for the collective benefit while mitigating potential risks.

Cryptocurrency, as an innovative technological breakthrough, possesses the potential to revolutionize conventional financial systems in various manners. It introduces the concept of decentralization, whereby transactions and record-keeping are dispersed across a network of computers, thereby eliminating the necessity for intermediaries such as banks. This

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<sup>24</sup> <https://ciphertrace.com/solutions/>  
[https://demo.chainalysis.com/get-demo/?utm\\_source=google&utm\\_medium=cpc&utm\\_campaign=dra-search-brand&utm\\_content=get-demo&utm\\_category=dra-search-brand\\_emea\\_search&utm\\_term=chainalysis&utm\\_source=google&utm\\_medium=cpc&utm\\_campaign={campaign}&utm\\_term=chainalysis&utm\\_content=627795095745&gad=1&gclid=CjwKCAjwsKqoBhBPEiwALrrqiCpvHA8r1QYyyF4ylwVroCG9idTYAH8tVUUFUstiJMt\\_bpK\\_EtGNyRoC9SYQAvD\\_BwE](https://demo.chainalysis.com/get-demo/?utm_source=google&utm_medium=cpc&utm_campaign=dra-search-brand&utm_content=get-demo&utm_category=dra-search-brand_emea_search&utm_term=chainalysis&utm_source=google&utm_medium=cpc&utm_campaign={campaign}&utm_term=chainalysis&utm_content=627795095745&gad=1&gclid=CjwKCAjwsKqoBhBPEiwALrrqiCpvHA8r1QYyyF4ylwVroCG9idTYAH8tVUUFUstiJMt_bpK_EtGNyRoC9SYQAvD_BwE)

transformation is driven by the utilization of blockchain technology, which offers transparency, security, and efficiency in financial transactions.

Moreover, cryptocurrencies disrupt conventional financial methodologies by presenting alternative avenues for the transfer and preservation of value. Diverging from traditional banking systems that operate within defined working hours and often entail delays in cross-border transactions, cryptocurrencies function ceaselessly, thus facilitating almost immediate cross-border transfers. This disruption poses a challenge to the established norms of the financial industry.

Whereas traditional financial systems are subject to regulation and control by central authorities, such as central banks and governments, cryptocurrencies, in contrast, operate in a decentralized manner, devoid of a central governing entity. This lack of central control can be perceived as an advantageous feature by money launderers, as it eliminates the presence of a single entity enforcing compliance with regulations to anti-money laundering (AML) and know-your-customer (KYC) protocols.

In conclusion, the emergence of cryptocurrencies has undoubtedly transformed financial systems by offering innovative and decentralized alternatives for value transfer and storage. While this transformation brings a number of benefits, it also entails challenges leading to anonymity and regulatory oversight. These challenges are exploited by money launderers, thereby underscoring the necessity for a balanced approach that uses the advantages offered by cryptocurrency technology while simultaneously addressing associated risks through effective regulation and compliance measures.

By applying the Technological determinism theory, research can analyze the role of cryptocurrency as a technological innovation and examine its influence on money laundering practices in Kyrgyzstan. It can explore how the unique characteristics of cryptocurrency contribute to its attractiveness for illicit financial activities and assess the implications for regulatory frameworks and law enforcement efforts in combating money laundering in the context of cryptocurrency use.

## **Methodology**

### **3.1 Research Design**

The study starts with an exhaustive scrutiny of the present literature on digital currencies, money laundering, and regulatory approaches. This scrutiny is beneficial in establishing a theoretical framework and in identifying knowledge gaps. The research utilizes

data analysis to identify potential indicators of money laundering activities facilitated by digital currencies. In addition, in-depth interviews are conducted with main stakeholders, such as government officials, law enforcement agencies, and financial institutions, cryptocurrency industry experts and a money-lauderer. The interviews brought valuable insights into the regulatory framework, enforcement practices, challenges, and perspectives surrounding money laundering associated with digital currencies in Kyrgyzstan. Moreover, the analysis entails an examination of legal and regulatory documents to comprehend the current regulatory mechanisms and define gaps in combating money laundering facilitated by digital currencies.

The research is significant as it addresses the pressing need to apprehend the impact of digital currencies on money laundering in Kyrgyzstan. By bridging the knowledge gap in this specific context, the findings of this study make a valuable contribution to the formulation of effective strategies and policies designed to tackle money laundering and ensure the integrity of the country's financial system. The proposed methodology, encompassing desk review, interviews, case studies and documents analysis, provided a comprehensive investigation into the involvement of digital currencies in money laundering activities in Kyrgyzstan.

The timeframe for the development of this research extended over 7 months, enabling an opportunity for thorough data collection, analysis, and the formulation of regulatory recommendations. Nonetheless, it is important to acknowledge the constraints posed by certain factors, including the availability of reliable and current information, as well as the challenges associated with accessing sensitive data related to ongoing investigations into money laundering. Nonetheless, through the utilization of qualitative approach and the exploitation of pre-existing sources, the objective of this research is to overcome such limitations and provide a comprehensive analysis of digital currency-enabled money laundering in Kyrgyzstan.

### **3.2 Data Collection Methods**

The planned combination of qualitative and quantitative research methods was dismissed due to the absence of official statistics on the real magnitude of usage of cryptocurrencies in money laundering in the country. There is no official data on the number of crypto money laundering cases since there are barely any corresponding court cases (which are considered to be the main indicator to count the number of this type of crime). The only case was under the investigation of the State committee of the national security, and no data was shared due to the ongoing investigation. Although later on one court case was

found on the state website of the Supreme court [www.sot.kg](http://www.sot.kg). Another planned survey request on the tendencies and preferences of Kyrgyz citizens on crypto currency usage was given up because of the refusal of crypto exchange points to cooperate. These factors made more feasible the using the qualitative methods. The validity and credibility of qualitative data was ensured through the usage of triangulation of data and methods. In order to obtain more comprehensive and objective data the following methods were used:

Desk research, which assumed comprehensive review of existing academic literature, reports, and regulatory guidelines related to cryptocurrency, money laundering in general, and the specific context of Kyrgyzstan. The main source of local data was provided by the open reports of the government on the National risk assessment of virtual assets<sup>25</sup> and other related information on the websites of Financial Intelligence Unit and the National Bank of the Kyrgyz Republic <sup>26</sup>. The national regulatory mechanisms are presented on the website of the Ministry of Justice of the Kyrgyz Republic.<sup>27</sup> This data helped to establish a theoretical framework and provide insights into the existing knowledge gaps and research findings.

Case study is another method applied to analyse money laundering incidents in Kyrgyzstan involving cryptocurrency. The lack of court cases on crypto money laundering caused difficulties for examining real cases to understand the methods and extent of cryptocurrency use in money laundering activities. However, there is one court case with involvement of cryptocurrency as a means of payment for drugs.<sup>28</sup> Although this case doesn't contain the article on money laundering, it does provide an example of misusing cryptocurrency as a convenient mean of payment for drugs and for further withdrawal of illicit funds. Description and analysis of aforementioned case is to be provided within the corresponding chapter. Another data on money-laundering techniques was provided by money-launderer who agreed to fill out the questionnaire anonymously.

Interviews with the local and international experts on cryptocurrency, law enforcement agencies, regulatory bodies, crypto exchanges, journalists and the money-launderer provided in-depth insights into the prevalence, methods, and challenges associated with cryptocurrency-related money laundering in Kyrgyzstan. The choice of interviewees was made on the basis of triangulation of data and comprised direct actor (money-launderer),

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<sup>25</sup> “Otchet ob otsenke riskov finansirovaniya terroristicheskoy deyatelnosti I legalizatsii (otmyvamiya) prestupnyh dohodov v sektore virtualnyh aktivov I postavshikov uslug virtualnyh aktivov”, (open version), Cabinet of Ministers of the Kyrgyz Republic, July 2023, p19

<sup>26</sup> [www.nbkr.kg](http://www.nbkr.kg), [www.fiu.gov.kg](http://www.fiu.gov.kg)

<sup>27</sup> [www.minjust.gov.kg](http://www.minjust.gov.kg)

<sup>28</sup> [www.sot.kg](http://www.sot.kg)

mediator (exchange point personnel), regulating authority (corresponding agency) and external observer (cryptocurrency experts) in order to obtain more comprehensive and trustworthy picture of the phenomenon. Qualitative data from interviews will be analyzed thematically to identify patterns and themes. Overall 7 interviews were held. In general, the interviews consisted of 10-12 questions (Appendix A) and took about an hour. Both online (Zoom meetings) and offline interviews were held. The oral consent to give an interview was granted beforehand. One interviewer granted written consent. Part of the interviews was given anonymously although the participants agreed on voice recording. The different approach was used for obtaining data from the money launderer. Instead of face-to-face meeting the person agreed to fill out the questionnaire. And, of course, no written content on providing the data was granted.

Analysis of the regulatory and policy frameworks of Kyrgyzstan to address cryptocurrency-related money laundering is another tool to provide insights into best practices, gaps in existing regulations, and potential policy recommendations.

These methods are to provide comprehensive understanding of the impact of cryptocurrency on money laundering in Kyrgyzstan, assess the extent of its utilization, and identify the regulatory and policy measures required to mitigate associated risks effectively.

The data collection plan included following steps:

1. The information requests on any information related to money laundering with cryptocurrency involvement were sent to The General prosecutor office of the Kyrgyz Republic, The Ministry of internal affairs of the Kyrgyz Republic, The State committee of the national security of the Kyrgyz Republic, The Supreme court of the Kyrgyz Republic and The State service of financial intelligence of the Kyrgyz Republic. The main bulk of responds came up with the absence of any cases on cryptocurrency involved money laundering. The only agency who mentioned a case was The State committee of the national security, but due to the ongoing investigation it refused to render any details of the case.
2. Extensive interviews were conducted with key stakeholders, such as government officials, law enforcement agencies, experts specializing in anti-money laundering and cryptocurrency regulation. Through these interviews, I gained helpful information into the regulatory framework, enforcement practices, challenges, and perspectives pertaining to money laundering associated with cryptocurrency in Kyrgyzstan.

3. Case-study was conducted based on the analysis of the aforementioned court case on cryptocurrency involved payment within drugs trading as well as analysing the anonymous individual case of money laundering.
4. Examination of legal and regulatory documents: scrutinize prevailing laws, regulations, and policy documents pertaining to cryptocurrency, money laundering, and financial regulations in Kyrgyzstan. This scrutiny brought valuable insights into the regulatory environment, identify gaps, and highlight challenges associated with combating money laundering facilitated by cryptocurrencies.

This data collection plan incorporates qualitative methodology, facilitating a thorough investigation into the involvement of cryptocurrency in money laundering in Kyrgyzstan. By utilizing data from interviews, case studies, and document analysis the research gathers a comprehensive and diverse range of data to effectively address the research questions and boost the analytical process. Ensuring a comprehensive data collection plan reinforces the validity and reliability of the findings, ultimately contributing to a comprehensive understanding of cryptocurrency-enabled money laundering in Kyrgyzstan.

### **3.3 Data Analysis**

The absence of official statistics on the cryptocurrency money laundering caused difficulties in providing valid and comprehensive data analysis. At the same time this fact can point at the embryonic level of the general usage of cryptocurrencies in the country or at the lack of instruments to identify and track the situation.

In this regard in-depth interviews constituted meaningfully into the data collecting and analysing process. Interviews with two well known local and regional experts were held (Daniel Vartanov, Blockchain technologies expert, and Vladimir Smerkis, former Binance general manager for Russia and CIS). Main findings of these interviews comprise the following:

The extent of involvement of cryptocurrency in the perpetration of money laundering is relatively minimal due to the presence of transparency and control measures. In contrast, traditional banking systems and cash transactions are considered to have a higher availability for money laundering, especially when dealing with amounts surpassing \$10,000 USD. The belief that cryptocurrency operations are entirely anonymous is unfounded. Most of developed countries have acquired the ability to trace and capture individuals engaged in money laundering through the use of cryptocurrencies. The inadequacy of cryptocurrency education among local law enforcement agencies poses a significant challenge in the fight



against money laundering in Kyrgyzstan. The effectiveness of regulatory measures would also depend on the recognition of cryptocurrencies as a regular currency (embracing it as a means of payment on the territory of the country) and the implementation of comprehensive Know Your Customer (KYC) and Anti-Money Laundering (AML) procedures for cryptocurrency exchanges. The governing bodies must adapt to the evolving financial landscapes including raising cryptocurrency turnover that has the potential to enhance financial accessibility for the underbanked population, for example.

Next interviews were conducted with law enforcement officials of regulating bodies. Since both of them were rendered anonymously there is no possibility to name exact institutions. Although it did not affect on getting following useful data:

Despite the emergence of cryptocurrencies, conventional methods of money laundering continue to persist, encompassing transactions pertaining to real estate, the establishment of shell corporations, and the transfer of funds to offshore accounts. However, cryptocurrencies possess distinct characteristics such as heightened anonymity, enhanced mobility, and ease of cross-border transactions, rendering them more opportunities to potential abuse. It is anticipated by respondents that instances of money laundering involving cryptocurrencies will constitute 40% of all money laundering cases within the forthcoming 5-10 years. This recognition of money laundering as a significant national security threat has sparked a political determination to regulate the circulation of cryptocurrencies in Kyrgyzstan. The primary obstacles that need to be overcome in order to implement a balanced and proportionate response include the limited human, technical, and financial capacity of regulatory bodies. Therefore, it is imperative to bolster international collaboration, enhance financial intelligence, and establish measures such as the facilitation of cryptocurrency transactions through banks that ensure proper identification processes.

The interviews with two licenced exchange points placed in Bishkek have shed a light on the meaningful gaps in current regulating framework of cryptocurrencies. According to them, most of crypto trading in Kyrgyzstan happens in unlicenced exchanges, those placed in regular fiat currency exchanges (most of which are at Mossovet district of Bishkek). These exchanges do not bother themselves with AML and KYC procedures and constitute the “black crypto market” in Kyrgyzstan that is not being controlled anyhow.

The case study included court case presented at the official website of the Supreme court of the Kyrgyz republic and presented the following example of cryptocurrency misuse in drugs trade. The case of УД№1326 described how synthetic drugs, primarily mephedrone,

are smuggled into Kyrgyzstan from Russia, China, and Kazakhstan<sup>29</sup>. They are sold through internet shops in Telegram channels, accepting payments in Bitcoin. The drug dealers receive cryptocurrency payments, then pay for packaging and placing drugs in bookmarks using the same crypto. They also launder money by transferring illicit funds from Bitcoin wallets to bank accounts and mobile wallets through exchange points.

The questionnaire anonymously filled by a money launderer presented following information: The act of money laundering was associated with the misappropriation of funds. The perpetrator chose to employ USDT and Bitcoin in the process of laundering, resulting in a sum of \$1.5 million USD. This procedure involved the conversion of traditional currency into cryptocurrencies, blending them with funds from other wallets of other individuals, dividing and further mixing them within the various wallets, and subsequently withdrawing amounts that did not coincide with initial sums. Such complexity hindered the investigation of this illicit activity. Despite acknowledging the risks posed by cryptocurrencies, such as their high volatility, the individual deliberately chose to utilize them due to their relative anonymity and limited regulatory oversight. Additionally, the respondent expressed a clear intention to continue employing cryptocurrencies in the future for the purpose of money laundering.

Both experts and officials recognize the global nature of cryptocurrency trading preferences, indicating a community of perspectives in this regard. There is a widespread consensus on the need of government regulation, with a focus on transparency, control mechanisms, and analytical tools. Money laundering is regarded as more prevalent within traditional banking systems. Experts assure that cryptocurrencies possess the potential to enhance financial accessibility for the underbanked population, although hindered by the Kyrgyz government hesitancy to accept them as a means of payment.

Examples of effective regulation, such as the acknowledgement of cryptocurrencies as legitimate currency and the implementation of KYC and AML procedures for crypto exchanges, are cited as example practices by both experts and officials. A notable concern exists regarding the inadequate education on cryptocurrencies within law enforcement agencies, suggesting a shared perspective on the necessity for enhanced training.

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<sup>29</sup> Criminal case N1326-22/, March 2023  
<http://act.sot.kg/act/download/380280.pdf>

Officials acknowledge the foreseen increase in attempts of money laundering within the next 5-10 years, thus emphasizing the pressing need to enhance anti-money laundering endeavors.

Insights provided by the drugs control officer offer a distinctive viewpoint on the involvement of cryptocurrencies in the drug trade, while the anonymous money launderer shares real-world techniques and motivations behind laundering activities.

The regulating body official offers a comprehensive overview of the challenges and opportunities associated with the regulation of cryptocurrencies and money laundering, thereby bringing valuable insights into the future developments in this field.

Overall, although there are certain differences in viewpoints offered by each individual interviewed, there is also mutual acknowledgement of the prospective impact of cryptocurrencies on money laundering, the obstacles they present in relation to illicit financial activities, and the significance of due governance and capacity building measures.

### **3.4 Ethical Considerations**

In the study on money laundering, it is important to follow ethical principles that safeguard the rights and wellbeing of all the parties involved. The following ethical considerations serve as a guiding framework for the methodology employed in this study:

**Informed consent:** Prior to conducting interviews, explicit informed oral consent was obtained from all participants, encompassing experts in cryptocurrency, regulatory officials, and individuals possessing knowledge of money laundering activities. They were informed on the study's purpose, the nature of their involvement, as well as their entitlement to confidentiality and anonymity.

**Anonymity:** In case of money launderer, due care was taken to maintain his/her anonymity, thereby safeguarding identities and mitigating any potential harm or legal repercussions. This assurance of anonymity was similarly extended to other respondents who expressed a desire to remain anonymous.

**Privacy and confidentiality:** Data protection involved the secure storage and safeguarding of all information obtained during interviews, which encompassed transcripts and records, to prevent any unauthorized access or disclosure.

The methodology used in this research is supported by ethical considerations, which guarantee the responsible and respectful pursuit of knowledge in a field of study that is sensitive. By adhering to these principles, this research aims to offer significant findings while protecting the rights and safety of all parties involved.

## Challenges and risks of digital currency-enabled money laundering

### 4.1 Technological challenges and vulnerabilities

In this chapter, the technological challenges and vulnerabilities to money laundering with digital currencies in Kyrgyzstan are explored. The possibilities of digital currencies have introduced a huge space for monetary transactions, yet it has also uncovered the financial system to diverse risks and challenges. Understanding its' technological characteristics is of high importance in order to observe the causes of these challenges and the potential vulnerabilities they could exploit.

*“A block in the blockchain can be thought of as a piece of paper that, once filled, is joined to its successor block via a common cryptographic hash. Each block is typically made up of three components including: 1) the block header, 2) a set of transactions, and 3) metadata containing information around the validity of the transaction. The block header enables a new block to be linked to the previous block in the chain. It contains an algorithmically created cryptographic hash of the data in the block, a time stamp, and the hash of the previous block, thereby creating the chronologically linked chain. The chain is viewable by everyone on the network, which makes it transparent, and cannot be changed once the linkage is created, which makes it secure.”<sup>30</sup>*

Blockchain security is ensured through the usage of a one-way function for the hash, which establishes an irreversible connection between transactions (blocks). Transactions are conducted via a dual-key framework comprising a public and private key, with the privacy of the latter being safeguarded through sophisticated cryptographic techniques. In the case of a public blockchain, blocks are distributed across decentralized nodes, thereby augmenting both transparency and security. By storing each block on multiple nodes, the likelihood of a singular entity governing transactions is extremely rare. The scale of the network directly corresponds to its level of security, thereby rendering blockchain technology a trustless system. Consequently, the necessity for intermediaries in peer-to-peer transactions is eliminated, thereby allowing parties to engage in transactions and validate them without depending on a central authority.

“A key characteristic of blockchain ledgers is that every transaction is time-stamped and sequenced. This feature was designed to eliminate the possibility of double-spending, or

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<sup>30</sup> J Vom Brocke, A Stein, S Hofmann, S Tumbas, “Grand societal challenges in information systems research and education: Ideas from the ERCIS virtual seminar series”, 2015  
[https://books.google.kg/books?hl=ru&lr=&id=k431BwAAQBAJ&oi=fnd&pg=PR5&ots=MPa0syj1eT&sig=tKczIQQV6nmB-QyZsadxE\\_6dUns&redir\\_esc=y#v=onepage&q&f=false](https://books.google.kg/books?hl=ru&lr=&id=k431BwAAQBAJ&oi=fnd&pg=PR5&ots=MPa0syj1eT&sig=tKczIQQV6nmB-QyZsadxE_6dUns&redir_esc=y#v=onepage&q&f=false)

committing the same currency to more than one transaction. As a consequence, every transaction is stored sequentially and the exact time it was recorded is stored as part of the transaction. In addition, transactions are immutable, permanent and transparent<sup>31</sup>. This technological feature was named by experts to be crucial for easier detection of a money laundering incident. According to them the little clue with just a concrete amount of money presumably being laundered can be enough to track the footprints. Law enforcement officers listed following blockchain analysis softwares as a potential tool to investigate the crypto money laundering: Chainalysis, Elliptic and CipherTrace<sup>32</sup>. They are used to trace and monitor cryptocurrency transactions. These instruments provide algorithms to analyze blockchain data, identify suspicious patterns, and link wallet addresses to individuals.

Although there are working tools to detect illicit activity with crypto involvement following schemes cause serious obstacles for effective investigation of money laundering cases:

- Mixers and tumblers refer to services that blend cryptocurrency transactions from various origins, thereby causing difficulty of tracing the initial source or final destination of funds. Within the conditions of money laundering, mixers are used for concealing the connection between the origin and destination of funds, considerably increasing the level of transactions anonymity. This poses a challenge for investigators seeking to track the funds' trail.
- Privacy coins, such as Monero, Zcash, or Dash, have been created with the intention of offering improved privacy and anonymity through the concealment of transaction specifics, including the sender's address and the amount involved. Criminals exploit the potential of privacy coins to execute transactions that are exceedingly difficult to trace.
- Decentralized Exchanges (DEX) function in the absence of a central authority, thereby enabling users to engage in direct trading with one another. This decentralized characteristic poses challenges for regulatory bodies in implementing traditional anti-money laundering (AML) protocols. Exploiting the DEX platforms, money launderers take advantage of their reduced regulatory scrutiny in contrast to centralized exchanges, thus establishing a forum for unauthorized transactions.

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<sup>31</sup> S. Heister and K. Yuthas, "Technology in Society" (2020)

<sup>32</sup> <https://www.chainalysis.com/> <https://www.elliptic.co/> <https://ciphertrace.com/>

- Smart contracts refer to contracts that are capable of executing themselves, as their terms are directly encoded into the underlying code. These contracts have the ability to automatically carry out predetermined actions once certain preconditions have been satisfied. Sometimes smart contracts can be exploited by money launderers to streamline and obscure illicit transactions. The self-executing nature of these contracts introduces an additional layer of intricacy, thereby posing a significant challenge for investigators seeking to track the funds.

In conclusion, this chapter's exploration of technological challenges and vulnerabilities sheds light on the complex nature of digital currencies and their implications for money laundering in Kyrgyzstan. The emergence of digital currencies, driven by blockchain technology, has undoubtedly expanded the realm of monetary transactions. However, this expansion comes with a range of risks and challenges that require a nuanced comprehension of the underlying technological features.

Blockchain, the foundational technology supporting digital currencies, ensures security through the implementation of a one-way hash function. This function establishes an irreversible connection between transactions, forming blocks that are chronologically linked in a transparent and secure chain. The utilization of dual-key cryptography, involving public and private keys, adds an additional layer of security to transactions. In public blockchains, the dispersion of blocks across decentralized nodes enhances both transparency and security, reducing the likelihood of a single entity controlling transactions.

The time-stamping and sequencing of transactions in blockchain ledgers are critical features designed to prevent double-spending. This chronological recording, together with the immutability and transparency of transactions, serves as a potent tool for detecting and tracking potential incidents of money laundering. Blockchain analysis tools, such as Chainalysis, Elliptic, and CipherTrace, have emerged to assist law enforcement in monitoring cryptocurrency transactions, identifying suspicious patterns, and linking wallet addresses to individuals.

Nevertheless, challenges persist in effectively investigating money laundering cases involving cryptocurrencies. The utilization of mixers and tumblers complicates the tracing of funds' origins and destinations, significantly heightening the level of transaction anonymity. Privacy coins, such as Monero, Zcash, or Dash, introduce an additional layer of difficulty by

concealing transaction specifics, making it arduous for investigators to trace illicit transactions. Decentralized Exchanges (DEX) pose regulatory challenges due to their lack of a central authority, allowing unauthorized transactions to occur with reduced scrutiny. Smart contracts, while innovative, introduce complexity by automatically executing predetermined actions, providing another avenue for money launderers to streamline illicit transactions.

Understanding these technological characteristics is crucial in comprehending the difficulties faced by law enforcement in countering crypto money laundering. The evolving nature of these technologies necessitates symmetrical progress in regulatory and investigative methodologies. As digital currencies continue to shape the financial landscape, there is an urgent requirement for adaptive and robust frameworks that address these technological challenges to ensure the integrity of financial systems and protect against illicit activities. The synergy between technological advancements and regulatory responses will be crucial in shaping the future of digital transactions and safeguarding financial systems from emerging threats.

#### **4.2 Financial System Integrity and Stability Risks**

Today blockchain technology and cryptocurrencies play game changing role in the global financial system. For example, crypto-asset market capitalisation grew by 3.5 times in 2021 to \$2.6 trillion.<sup>33</sup> With their increasing role there is a possibility of creation of a new and alternative financial system. IMF shared its concerns on possible negative effect of uncontrolled crypto ecosystem to the macro economical and financial stability<sup>34</sup>.

*“Crypto has inspired an unusually polarized discourse. Its biggest fans think it is saving the world. In contrast, its biggest skeptics believe it is an environment-killing speculative bubble orchestrated by grifters and sold to greedy dupes, which will probably crash the economy when it bursts. Despite the goofy veneer, crypto is not just another weird internet phenomenon. It is an organized, technological movement, armed with powerful tools*

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<sup>33</sup> Financial Stability Board, FSB, “Assessment of Risks to Financial Stability from Crypto-assets”, February, 2022  
<https://www.fsb.org/2022/02/assessment-of-risks-to-financial-stability-from-crypto-assets/>

<sup>34</sup> IMF, “Elements of Effective Policies for Crypto Assets” (2023)

*and hordes of wealthy true believers, whose goal is nothing less than a total economic and political revolution”.*<sup>35</sup>

For example, the main advantage of crypto system is characterised by the decentralized structure that lets to decrease the number of actors, to escape human factor and to cut considerably the costs, but at the same time this feature brings risks because it is less controlled and governed. Cryptocurrencies do not fall under the jurisdiction of the stabilization policies typically employed by central banks, and it cannot be assumed that those responsible for cryptocurrency issuance are highly motivated to provide such stabilization policies. Such a shortage of monitoring process can lead to emergence and development of the new risks. In case of cryptocurrencies the lack of control leads to the higher number of cyber attacks.

One of the examples of crypto frauds is the case of Mt. Gox exchange.<sup>36</sup> Formerly recognized as the largest Bitcoin exchange worldwide, the Mt. Gox exchange was established in Tokyo, Japan. However, in 2014, it was compelled to declare bankruptcy because of the hackers’ attack. Overall, 850 000 Bitcoins, belonging to both the company and its clientele, were lost.

In fact, taking into account high reliance of cryptosystem on technology, there is high possibility of occurring software bugs, or protocol failures that can lead to widespread disruptions or the loss of assets.

Cryptocurrencies have gained a reputation for their inherent price volatility, which is characterized by rapid and unpredictable fluctuations. This phenomenon has the potential to result in substantial financial losses for investors and can also have an influence on the overall stability of the market. “...most crypto-assets are highly speculative, meaning that their value depends exclusively on supply and demand dynamics. Speculative markets tend to be volatile (predominantly driven by news and technical indicators rather than fundamentals), susceptible to manipulation or fraud and often facilitate the emergence of bubbles that can eventually burst, causing a large redistribution of wealth”<sup>37</sup>.

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<sup>35</sup> Kevin Roose, “The Latecomer’s Guide to Crypto”, The New York Times (March, 2022)

<sup>36</sup> Mt. Gox  
[https://en.wikipedia.org/wiki/Mt.\\_Gox](https://en.wikipedia.org/wiki/Mt._Gox)

<sup>37</sup> European Securities and Markets Authorities (ESMA), “Crypto-assets and their risks for financial stability, TRV Risk Analysis”, October 22 (P5)



Cryptocurrencies, namely its' mining, are also blamed to have a negative impact on environment. Although digital assets were created in a way to get rid of all the expenses that accompany traditional banking services, they do require internet, respective equipment and most important – energy. Cryptocurrency mining is an activity that involves intense competition, and as the value of the block reward increases, so does the incentive to participate in mining. The escalation of cryptocurrency prices results in a greater demand for energy in crypto networks, since more people become part of mining networks with the aim of achieving potential financial profits. According to Cambridge Bitcoin Electricity Consumption Index Bitcoin consumes approximately 140 Terawatt-hours (TWh) of electricity annually (0.63% of global electricity use) and about 352 TWh of energy (0.22% of global energy production).<sup>38</sup> And University of Cambridge claims that most Bitcoin mining takes place in the U.S. (38%), China (21%), and Kazakhstan (12%).<sup>39</sup> Meanwhile in 2022 196 mining companies in Kazakhstan were disconnected from electricity due to the energy shortage in the country<sup>40</sup>. Although there is no evidence that the shortage occurred because of the mining activity the government had to cut them off since there was discontent from the side of citizens.

Alongside with the negative impacts of cryptocurrencies on the economy, there are also numerous benefits of their involvement into global financial processes. As it was mentioned by the expert, cryptocurrencies could cover underbanked and unbanked populations. Any owner of the cell phone can easily make transactions, trading with crypto saving time and money they need to access and use banks' services. Such an access could provide inclusion and promotion of the most remote regions into global economy.

Another positive impact of cryptocurrency circulation on the grass-root level in developing countries would be it's usage in remittances flow. According to the World Bank<sup>41</sup>

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[https://www.esma.europa.eu/sites/default/files/library/esma50-165-2251\\_crypto\\_assets\\_and\\_financial\\_stability.pdf](https://www.esma.europa.eu/sites/default/files/library/esma50-165-2251_crypto_assets_and_financial_stability.pdf)

<sup>38</sup> University of Cambridge, Cambridge Centre for Alternative Finance. <https://ccaf.io/cbnsi/cbeci/comparisons>

<sup>39</sup> University of Cambridge, Cambridge Centre for Alternative Finance. [https://ccaf.io/cbnsi/cbeci/mining\\_map](https://ccaf.io/cbnsi/cbeci/mining_map)

<sup>40</sup> V Kazakhstane mainerov otklyuchili ot elektrosabjeniya, [www.rbc.ru](http://www.rbc.ru), January, 2022 <https://www.rbc.ru/crypto/news/61efe0929a794788470941fc>

<sup>41</sup> World Bank, "Migration and Development Brief". <https://www.knomad.org/publication/migration-and-development-brief-38>

“recorded remittance flows to low- and middle-income countries (LMICs) are estimated to grow by 1.4% to \$656 billion in 2023...” Due to minimal and sometimes null fees, the cost for making crypto transactions becomes more profitable. Besides the speed of such a cross border remittance is to work for labour migrants’ good. These factors would absolutely have a positive effect on Kyrgystan’s economy whose GDP relies heavily on the migrants’ remittances: “remittances in the Kyrgyz Republic accounted for 30% of GDP and ranked third in the world in terms of the volume of remittances as the share of GDP.”<sup>42</sup>

Blockchain technology, which serves as the foundational element of cryptocurrencies, functions as a groundbreaking force in guaranteeing transparency throughout transactions. The decentralized and distributed ledger characteristic of blockchain renders each transaction unchangeable and capable of being verified. This has significant implications for combating corrupt practices, not just within commercial entities but also within governmental organizations. The transparent nature of blockchain lessens the potential for fraudulent activities, bribery, and other forms of corruption by providing an unalterable record of transactions.

Within commercial contexts, the transparency facilitated by blockchain diminishes the probability of fraudulent financial activities. Each transaction is documented on a secure and decentralized ledger, visible to all pertinent parties. This transparency establishes a level of responsibility that acts as a deterrent against dishonest practices. Furthermore, the immutability of blockchain ensures that once a transaction is recorded, it cannot be modified or tampered with, offering an additional layer of security and authenticity.

In the realm of governmental organizations, the transparency of blockchain can serve as a potent tool in promoting accountability and reducing corruption. Transactions within the public sector, such as budget allocations, expenditures, and contracts, can be registered on a blockchain, enabling citizens and stakeholders to monitor and verify the use of public funds. This heightened transparency not only instills trust in government processes but also deters corrupt practices.

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<sup>42</sup> ICT, “Online search behaviour, and remittances: evidence from the Kyrgyz Republic”, ADBI Working paper series, David Roland-Holst, Kamalbek Karymshakov, Burulcha Sulaymanova, Kadyrbek Sultakeev. (P2) December, 2022

The advantages of blockchain transparency extend beyond the prevention of corruption to positively impact state revenues. By fostering a more accountable and efficient financial system, blockchain can contribute to increased revenues for the state's budget. Transparent and verifiable transactions diminish the opportunity for tax evasion and other illicit financial activities. This, in turn, ensures that the state receives its fair share of taxes and fees, thereby contributing to a more resilient and sustainable fiscal environment.

The progression of cryptocurrencies represents a complex path characterized by innovation, associated advantages, inherent risks, and profound societal outcomes. As these digital assets continue to redefine the global financial arena, it becomes increasingly crucial for nations and financial institutions to navigate the intricate system surrounding cryptocurrencies.

Regarding innovation, cryptocurrencies have introduced unprecedented methods of conducting fiscal transactions, challenging conventional banking systems. The decentralization, security, and efficiency provided by blockchain technology, the fundamental infrastructure of cryptocurrencies, present opportunities for streamlining fiscal processes and increasing accessibility.

However, the progress of cryptocurrencies is not free of risks. The price volatility of numerous cryptocurrencies poses challenges for investors and can have far-reaching effects on overall market stability. The absence of a centralized authority overseeing these digital assets raises inquiries about regulatory frameworks and the potential for illicit activities.

Social consequences are also in play, with cryptocurrencies influencing economic systems and behaviors. Their role in remittances, particularly in states reliant on labor migrants, has the capability to reshape economic landscapes. Additionally, the environmental impact of cryptocurrency mining raises concerns about sustainability.

In navigating this intricate system, it is important for nations and financial institutions to reach a safe balance. Regulation should be designed to maximize the advantages offered by cryptocurrencies while minimizing the risks. A collaborative international endeavor is necessary to establish standardized regulatory frameworks that can adapt to the evolving nature of cryptocurrencies.

The development of cryptocurrencies is a dynamic interplay between technological innovation, economic transformation, and social adaptation. Governments and financial institutions that proactively engage with this evolution, comprehending the potential advantages and risks, will be better positioned to ensure a financially sustainable and inclusive ecosystem in the ever-changing landscape of global finance.

## **Digital currencies and money laundering**

### **5.1 Overview of digital currencies used in Kyrgyzstan**

Cryptocurrencies have gained popularity in Kyrgyzstan, primarily driven by their usage for money transfer and commerce rather than being treated as investment tools. This chapter provides an overview of the cryptocurrency landscape in Kyrgyzstan based on interviews with cryptocurrency industry insiders and insights from experts.

According to the personnel of the cryptocurrency exchange<sup>43</sup>, USDT (also known as Tether) occupies a meaningful position, encompassing approximately 98% of the digital currency transactions in Kyrgyzstan. Furthermore, Bitcoin and Ethereum go behind USDT, indicating a varied yet less widespread utilization of alternative cryptocurrencies. This information is verified by the data mentioned in the National risk assessment report<sup>44</sup>: “according to the reports of the law enforcing agencies, results of questionnaires and held focus-group discussions with private sector, the most popular are Stable coins, more specifically – USDTs of Tether Limited company. USDT is equal to US dollars and this is named to be one of the reasons of it's popularity within making any transactions with cryptocurrencies. This same currency was named to be as popular within money laundering operations”.

The experts said that in general nation's preferences go in line with those taking place globally. According to CoinMarketCap<sup>45</sup> in early December 2023 the most popular three cryptocurrencies worldwide are Bitcoin with the price 42 387 US dollars, Ethereum with the price of 2 248 US dollars and Thether USDT with 1US dollar.

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<sup>43</sup> Interviews with OsOO AMT Invest, Sanarbek uulu Alisher (11.22.23) and anonymous respondent from another exchange (11.21.23), Bishkek, Kyrgyzstan.

<sup>44</sup> Otchet po otsenke riskov finansirovaniya terroristicheskoy deyatelnosti i legalizatsii (otmyvaniya) prestupnyh dohodov v sektore virtualnyh aktivov I postavshikov uslug virtualnyh aktivov, July 2023.

<sup>45</sup> The world's most trusted and accurate source for crypto market capitalizations, pricing and information.

According to aforementioned exchanges, cryptocurrencies in Kyrgyzstan are primarily employed for the purpose of transferring money and conducting commercial transactions. In contrast to other countries where cryptocurrencies are actively employed as instruments for investment, in Kyrgyzstan, the majority of individuals perceive cryptocurrencies as a means of facilitating transactions rather than as a mean for long-term investment.

Exchanges also shared information on the average amount of trading sum which is approximately \$1000 USD, that in turn indicates a moderate degree of involvement of cryptocurrencies in the trading compared to the fiat currencies. According to the National risk assessment report<sup>46</sup> the overall volume of operations of 22 licenced crypto exchanges have formed amount of 7 635 174 903 soms by July, 2023.

Regarding the rates of commission for their services, they charge between 0.4% and 0.6%, with slightly less rates in stock exchanges. As it was mentioned by exchange employee the difference between exchanges and stock exchanges is that first ones play the role of simple mediator, meanwhile stock exchanges also serve as a guarantee for safer deal.

As of October 20<sup>th</sup>, 2023 there are 58 licenses released to virtual assets service providers (exchanges and stock exchanges)<sup>47</sup>. This number displays huge popularity of cryptocurrency exchanges within a year: only 6 licences were released in 2022 compared to 50 released in 2023. Overall the procedure of gaining the license does not cause many

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<sup>46</sup> Open version of The Report on assessment of the risks of financing terrorism and legalization (laundering) of illicit funds in the virtual assets and virtual assets service providers sector, July 2023, Commission on the issues of countering financing terrorism and legalization (laundering) of illicit funds. (P10)

<sup>47</sup> Jamilya Musuralieva, “58 companies gained licence to work with crypto. How many taxes have they allocated to the budget?”, November, 20, 2023.

[https://kaktus.media/doc/489611\\_58\\_kompaniy\\_polychili\\_licenziu\\_na\\_raboty\\_s\\_kriptoy\\_skolko\\_nalogov\\_oni\\_otchislili\\_v\\_budjet.html#:~:text=%D0%A1%D0%BA%D0%BE%D0%BB%D1%8C%D0%BA%D0%BE%20%D0%BD%D0%B0%D0%BB%D0%BE%D0%B3%D0%BE%D0%B2%20%D0%BE%D0%BD%D0%B8%20%D0%BE%D1%82%D1%87%D0%B8%D1%81%D0%BB%D0%B8%D0%BB%D0%B8%20%D0%B2%20%D0%B1%D1%8E%D0%B4%D0%B6%D0%B5%D1%82%3F,-%D0%AD%D0%BA%D0%BE%D0%BD%D0%BE%D0%BC%D0%B8%D0%BA%D0%B0&text=%D0%92%20%D0%9A%D1%8B%D1%80%D0%B3%D1%8B%D0%B7%D1%81%D1%82%D0%B0%D0%BD%D0%B5%20%D0%BE%D0%BA%D0%BE%D0%BB%D0%BE%20%D0%B4%D0%B5%D1%81%D1%8F%D1%82%D0%B8%20%D0%B2%D0%B8%D1%80%D1%82%D1%83%D0%B0%D0%BB%D1%8C%D0%BD%D1%8B%D1%85.%D1%8D%D0%BA%D0%BE%D0%BD%D0%BE%D0%BC%D0%B8%D0%BA%D0%B8%20%D0%B8%20%D0%BA%D0%BE%D0%BC%D0%BC%D0%B5%D1%80%D1%86%D0%B8%D0%B8%20%D0%A7%D0%BE%D1%80%D0%BE%20%D0%A1%D0%B5%D0%B9%D0%B8%D1%82%D0%BE%D0%B2.](https://kaktus.media/doc/489611_58_kompaniy_polychili_licenziu_na_raboty_s_kriptoy_skolko_nalogov_oni_otchislili_v_budjet.html#:~:text=%D0%A1%D0%BA%D0%BE%D0%BB%D1%8C%D0%BA%D0%BE%20%D0%BD%D0%B0%D0%BB%D0%BE%D0%B3%D0%BE%D0%B2%20%D0%BE%D0%BD%D0%B8%20%D0%BE%D1%82%D1%87%D0%B8%D1%81%D0%BB%D0%B8%D0%BB%D0%B8%20%D0%B2%20%D0%B1%D1%8E%D0%B4%D0%B6%D0%B5%D1%82%3F,-%D0%AD%D0%BA%D0%BE%D0%BD%D0%BE%D0%BC%D0%B8%D0%BA%D0%B0&text=%D0%92%20%D0%9A%D1%8B%D1%80%D0%B3%D1%8B%D0%B7%D1%81%D1%82%D0%B0%D0%BD%D0%B5%20%D0%BE%D0%BA%D0%BE%D0%BB%D0%BE%20%D0%B4%D0%B5%D1%81%D1%8F%D1%82%D0%B8%20%D0%B2%D0%B8%D1%80%D1%82%D1%83%D0%B0%D0%BB%D1%8C%D0%BD%D1%8B%D1%85.%D1%8D%D0%BA%D0%BE%D0%BD%D0%BE%D0%BC%D0%B8%D0%BA%D0%B8%20%D0%B8%20%D0%BA%D0%BE%D0%BC%D0%BC%D0%B5%D1%80%D1%86%D0%B8%D0%B8%20%D0%A7%D0%BE%D1%80%D0%BE%20%D0%A1%D0%B5%D0%B9%D0%B8%D1%82%D0%BE%D0%B2.)

troubles in Kyrgyzstan: it costs around 1000soms, there need to be a share capital not less than 45mln soms. Although anonymous respondent named the amount of 5000\$ as a bribe to get licence from Finnadzor that can cause obstacles for getting it. Licenced exchanges expressed their readiness to work “in white” (to report permanently, to pay taxes and obey all AML rules), but named unlicensed exchanges as main competitors due to several reasons: they are not controlled anyhow, they fix lesser commission, they do not bother themselves with KYC procedures, and these factors make their services to be more attractive for customers.

Most of the trading that takes place offline is concentrated in the Mossovet district of Bishkek, specifically within unlicensed exchanges. These exchanges operate in an informal manner, where customers are not required to complete any forms or present identification documents.

On line stocks are another services that are being used by Kyrgyz nationals. Kraken, Binance, Coinbase, Bitfinex, KuCoin and ExMo are the top international platforms to trade crypto.

One exchange employee shared his point of view naming Kyrgyzstan to be a “hub”, suggesting that a meaningful portion of cryptocurrency transactions include funds that do not remain within the country, but go further to Russia and Europe.

There is no widespread grassroots usage of cryptocurrencies due to several reasons. According to Vartanov, the government have diminished the very advantage of cryptocurrencies banning it’s usage as a means of payment. Expert believes that Kyrgyzstan is the country with “underbanked population” meaning limited access of people to bank services. In fact, most of remote areas barely use these services because of their absence. Following Vartanov, full adoption of crypto as a regular currency would open huge opportunities for the whole population, including labour migrants and entrepreneurs who could contribute even more to the country’s GDP. For now, expert says, government in a way treats cryptocurrency as a threat to the fiat national currency som, whose rate sometimes is being artificially protected by the state’s monetary interventions.

All interviewees agreed on meaningful increase of cryptomarket in Kyrgyzstan, some of them naming 5-10% of actual number of involved in crypto trading part of population. Coming 5 years were told to bring more involvement of people to cryptocurrency trading.

In general, Kyrgyzstan demonstrates an illustrative landscape of cryptocurrencies characterized by the widespread popularity of stablecoins, for practical purposes like money

transfers. Nevertheless, the country encounters obstacles, including the presence of unlicensed exchanges operating in a “black market”, regulatory gaps, and government restrictions on the use of cryptocurrencies as a means of payment. The increase in the number of exchanges signifies a growing interest in the cryptocurrency sector. It is important to address these challenges and implement comprehensive regulations specifically tailored to the unique terms of Kyrgyzstan in order to foster a secure and flourishing cryptocurrency environment. This would unlock the full potential of digital assets for the population and contribute to the economic growth of the country.

## **5.2 Case Studies: Instances of Digital Currency-Enabled Money Laundering in Kyrgyzstan**

In this chapter two case studies will be examined: a court case on drug selling and the second one is on direct money laundering, both taken place in Kyrgyzstan.

The only court case which contains mentioning digital currencies in the country is the case N1326-22/<sup>48</sup>. According to the judgement dated of March, 3, 2023 four young people of 2001-2003 years of birth were sentenced for 5 to 12years of imprisonment with confiscation of property. In September 2021 these individuals entered into a preliminary conspiracy via the messenger "Telegram." They conspired with individuals using the nicknames "Den," "Melvin Power," "Old School," "Anastasia Abramova," "Kirill Kirillov," and "Maria," who organized the sale of narcotics, psychotropic substances, and their analogs through the "Telegram" messenger within the territory of Bishkek and the Chui region. Further on, they were supposed to receive narcotics, psychotropic substances, and their analogs in locations where they were hidden. The coordinates of these locations were shared via the "Telegram" messenger from individuals with the same nicknames. After packaging them into special packets, they would then place narcotics and psychotropic substances in the territory of Bishkek and the Chui region. During the period of September 2021 to June 2022 young people received narcotics and psychotropic substances in particularly large quantities in Bishkek. Following this, in a rented apartment they repackaged the received narcotics and psychotropic substances into small doses and hid them in Bishkek and the Chui region for further distribution (from where the customers took them later on. Presumably the customers were informed on coordinates by the Telegram chat administrators). For their services, young

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<sup>48</sup> National database of court cases in the Kyrgyz Republic  
<http://act.sot.kg/act/download/380280.pdf>

people received funds from unknown individuals on the "Telegram" messenger into cryptocurrency wallets "Blockchain" in Bitcoin. However, knowing that cryptocurrency is not used in transactions for necessary daily life goods in the territory of the Kyrgyz Republic, they started transferring it through crypto exchanges "PlanB РАБОТАЕ.О. Криптовалют" and "Exchange Crypto" on the "Telegram" mobile messenger to their bank cards and their electronic (mobile) wallets Balance kg and O.dengi. According to the information gained from one bank a young man received 669,928 soms from drug sales within 10 months. The other guy received 372,739.60 soms within 5 months. The rest two also received lesser amounts. A total amount of 1,192,592.29 soms were withdrawn from bank ATMs and POS terminals and transferred to other bank cards, with funds primarily coming from unknown "QIWI wallets" of a Russian bank. Thus, the criminal income obtained from the sale of narcotics and psychotropic substances was laundered through ATMs and POS terminals. The total weight of the found drug substances formed approximately 14 kilograms. The articles of Criminal Code these four individuals were sentenced for were Article 282 ("Illegal manufacture of narcotics, psychotropic substances, and their analogs for the purpose of distribution.") and Article 222 ("Legalization (money laundering) of criminal proceeds.") of the Criminal Code of the Kyrgyz Republic.<sup>49</sup>

According to the respondent from the law enforcing agency<sup>50</sup>, 90% of mephedrone<sup>51</sup> (currently the most popular and wide-spread drug in the country) are obtained through subscription to certain social media channels (mainly Telegram) and making payment with cryptocurrencies. The reason for choosing cryptocurrency as a mean for drug trading is the less risk to be caught by authorities for whom digital assets cause more challenges for analyzing and investigating<sup>52</sup>. The same law official shared the information on how Kyrgyz investigators catch those who hide the drugs in designated places (bookmarks): officers subscribe to the same Telegram channels, pretend to be customers and make "test purchases" and stalk the designated places. This approach works for catching the criminals who are busy with packaging and hiding the drugs and customers, but do not help to get those who

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<sup>49</sup> The Criminal Code of the Kyrgyz Republic, as of October, 21, N127; Centralised database of legal information of the Kyrgyz Republic  
<http://cbd.minjust.gov.kg/act/view/ru-ru/112309>

<sup>50</sup> Anonymous interview as of July, 2023

<sup>51</sup> Mephedrone - A powerful stimulant that is often compared to drugs like cocaine and ecstasy.  
<https://www.talktofrank.com/drug/mephedrone>

<sup>52</sup> Technique used by officers to reveal the criminals pretending to be the customers.



originally provide them with drugs, because even the first ones get information and drugs from anonymous people (they are informed via messengers on the place of getting the other batch of drugs). In this regard, the criminal group took care of building as safe operating system as possible.

In the aforementioned case, cryptocurrencies played an important role in every phase of the drug trading procedure. The individuals employed to package the drugs or indicate specific locations ("bookmarking") were paid with digital currencies. Likewise, the end-users or customers who consumed the drugs also used cryptocurrencies for payment.

The emphasis placed on the utilization of cryptocurrencies throughout the entire chain signifies a shift from traditional financial methods to digital alternatives within the realm of illicit drug trade. This approach applies a degree of anonymity and complexity, causing troubles for authorities to track and scrutinize the movement of funds. Another important finding is heavy employment of messengers: Telegram channels are very convenient and easy way to disseminate drugs. Such an easy accessibility of drugs in the country causes great concern for public health. Especially for young people who are well familiar with all new tendencies and technologies.

The other case study is based on the example of the individual who kindly agreed to provide information on his personal case of illegal export of money. According to him/her the overall amount of the laundered money formed 1 500 000 US dollars which were misappropriated. The tactic of laundering money looked as following: *"Incoming cryptocurrency transfers are mixed among the funds of other users, and outgoing transactions are conducted in random amounts and to other wallets. This makes it impossible to correlate incoming and outgoing transactions by amounts and identify matches"*<sup>53</sup>. This information fully converges with the data provided by the officers of two different law enforcing agencies, who named online "mixers" as one the main tools to launder illegal crypto funds.<sup>54</sup>

The currencies used in this concrete case were named to be USDT and Bitcoin. The individual described this method of laundering money as *"The safest method. It was chosen for its anonymity and complexity to trace."* Respondent also shared his viewpoint on the disadvantages of this method. According to him, there are risks regarding cryptocurrency

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<sup>53</sup> Anonymously filled questionnaire, October 2023.

<sup>54</sup> Anonymous interviews, July-August 2023.

volatility and the possibility of attracting the attention of law enforcement agencies (compared to cash tied laundering, for example). He also believes that increase in money laundering cases using cryptocurrencies in Kyrgyzstan may be associated with the growing popularity of cryptocurrencies worldwide and the lack of regulation. More specifically, "*the weak state control over the circulation of cryptocurrencies*" was named to be main reason for choosing this concrete method. Moreover, the individual expressed his readiness to use the same method once again.

These findings do not fully align with the statements of experts. Vartanov and Smerkis insist on "transparency" of all transactions made with cryptocurrencies, that makes the analysis and investigation processes easier if proper expertise and willingness of authorities are in place<sup>55</sup>. In other words, the methods of laundering cash money and fiat currencies in banking system are more convenient and less risky and therefore are more widespread.

Presented case studies provide following findings and conclusions based on intersection of illicit actions consequences, digital currencies, and obstacles encountered by law enforcement bodies in Kyrgyzstan:

- The examination of the drug trade case revealed a meaningful reliance on digital currencies, specifically Bitcoin, for the facilitation of transactions. The individuals involved in illicit activities not only received payments in virtual currency but also employed cryptocurrency exchanges to launder their illicit gains.
- Cryptocurrencies are selected as a means for conducting drug-related transactions due to their perceived anonymity and difficulty in terms of tracing digital assets. This situation causes challenge for law enforcement agencies since cryptocurrencies provide criminals with an extra level of protection.
- The person involved in the money laundering incident presented sophisticated scheme encompassing mixing of incoming digital currency transfers with those originating from other people. Disbursements were made in random sums to different wallets, with the intention to obscure the trail and prevent easy detection. The selection of USDT and Bitcoin as means for money laundering indicates a preference for more extensively employed cryptocurrencies.
- Law enforcement agencies encounter challenges when it comes to monitoring and examining criminal activities associated with cryptocurrencies. The decentralized and

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<sup>55</sup> Interviews with Daniil Vartanov and Vladimir Smerkis, August, 23 and September, 29 2023.

pseudonymous characteristics of transactions conducted through online mixers present an obstacle in establishing a connection between incoming and outgoing transactions.

- The lack of governmental regulation regarding the turnover of digital currencies is recognized as an important factor that contributes to the increase of cases of money laundering involving digital currencies.

These findings push to make recommendations on complementing existing regulatory framework in order to effectively tackle the challenges that arise from the usage of cryptocurrencies for illicit purposes. Moreover, it is crucial to build the capacity of law enforcement agencies in terms of tracing and investigating crimes that involve digital assets.

## **Mitigating digital currency-enabled money laundering: recommendations and strategies**

### **6.1 International best practices in regulating digital currencies and money laundering**

All the interviewees in this research (even among experts) named different countries as best practices. Among the most often mentioned there were UAE, UK, Japan, Ukraine. Different resources mentioned Germany, Malta, El Salvador, Switzerland and Canada as the countries with the highest rates of crypto dissemination and relative regulation system in place<sup>56</sup>. Although there are no direct evidences for these regulations to be successful. For me personally, the case of EU provides more interest in terms of it's example to harmonise the legislation of so many countries and come up with unified approach that is to work for good. The other reason for picking the case of EU as a best practice is it's potential application to the Central Asian region. Although there is contrast diversity from full prohibition of crypto in Turkmenistan and Tajikistan to the most progressive approach in place in Kazakhstan, and Kyrgyzstan in the middle, that partly permitted crypto circulation but haven't accepted it as a mean for payment.

Central, Northern, and Western Europe (CNWE) is the largest cryptocurrency economy in the world. From July 2021 to June 2022, \$1.3 trillion worth of cryptocurrency was received by users and institutions across this region. Notably, Western Europe stood out

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<sup>56</sup> Ahad Waseem, "10 best countries for cryptocurrency – Crypto laws, taxes & adoption", December 2023 <https://management.org/best-countries-for-cryptocurrency#:~:text=While%20developing%20economies%20like%20El.Portugal%20are%20a%20good%20option.>

with six of its countries being among the top 40 adopters of cryptocurrency, namely, the United Kingdom (17), Germany (21), France (32), Spain (34), Portugal (38), and the Netherlands (39)<sup>57</sup>. The regulatory frameworks implemented by the European Union (EU), such as the crypto travel rule and the MiCA licensing regime<sup>58</sup>, offered a heightened level of regulatory clarity. The European Union's Markets in Crypto Assets regulation, commonly known as MiCA, is to come to effect in 2024, thus making it as the first jurisdiction globally to implement specific and comprehensive regulations for this industry.

MiCA (Markets in Crypto-Assets) and TFR<sup>59</sup> (Transfer of Funds Regulation) creates a distinct regulatory framework within the European Union (EU) that refers specifically to cryptocurrency enterprises, thereby providing enhanced clarity to all regulations governing participants within this industry. The intention of this framework is to ensure the provision of transparency and security in digital assets system. Such an approach could also be used by Central Asian countries, that could probably entail collaboration within the rest of financial system.

*“Overall, MiCA paves the way for broad acceptance of cryptocurrencies and digital assets. Its uniform, clear rules and focus on consumer protection throughout the EU create a secure environment that strengthens trust in the market and opens doors to crypto for both individual investors and institutions.”<sup>60</sup>*

One of the reasons to name EU’s practice as effective or the “best” is that it handles robust monitoring and evaluation plan with concrete outputs and indicators that enables to run flexible state policy in this fast growing and changing sphere. And being flexible and fast-responsive in the case of crypto regulation is highly needed.

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<sup>57</sup> The 2022 Geography of Cryptocurrency Report, Chainanalysis, 2023, P 31

<sup>58</sup> MiCA – regulation of the European Parliament and the Council of the European Union, introducing a uniform rule, according to which all companies dealing with crypto assets will operate in the territory of all EU countries.

<sup>59</sup> The aim of TFR is to establish international standards that aid in preventing, detecting, and investigating money laundering and terrorist financing  
<https://www.europarl.europa.eu/legislative-train/theme-an-economy-that-works-for-people/file-revision-of-the-regulation-on-transfers-of-funds>

<sup>60</sup> Dr. Sven Hildebrandt, Executive Director of Business Development and Strategic Partnerships at Boerse Stuttgart Digital, The 2023 Geography of Cryptocurrency Report, October 2023, P38

The other advantage of the MiCA's legal framework is in the proclaimed obligation on all crypto-asset service providers "to act honestly, fairly and professionally"<sup>61</sup>. This principle ensures protection of customers' funds obliging exchanges to reimburse investors in case if they lose their assets. And the second focus is in preventing market abuse, i.e., market manipulations that could potentially include money laundering, fraud and scam. The regulatory framework encompasses various actors of the cryptocurrency domain, including crypto assets, providers of crypto asset services, stablecoins, issuers of cryptocurrencies, and platforms for crypto exchange. The primary objective of this regulation is to facilitate the provision of regulated services in the 27 member countries of the bloc. Additionally, it mandates that entities engaged in crypto trading obtain authorization, thereby enabling regulatory authorities to effectively oversee these businesses and detect any potential violations of anti-money laundering (AML) regulations. The obligation that data regarding an individual must accompany the transaction renders it difficult for criminals to manipulate the characteristic of anonymity in cryptocurrency exchanges for the purpose of money laundering.

More specifically MiCA uses the following tools:

- The framework claims that the European Bank Authority (EBA) uphold a publicly accessible record of crypto-businesses that are not in compliance, thus facilitating the monitoring of any violation of anti-money laundering legislation.
- Any organization to provide cryptocurrency services within the European Union must obtain authorization from one of the 27 national financial regulatory bodies. These services may include custody of assets, trading, portfolio management, or advisory services.
- The company that provides cryptocurrency assets to the general public must also issue a comprehensive and transparent document, commonly known as a white paper, that effectively informs on the potential risks associated with such investments, ensuring that customers are not misguided.
- MiCA does not forcibly fit cryptocurrency into preexisting regulatory categories, but rather modifies current regulations to accommodate new financial instruments that can be utilized for transactions, investments, and various other purposes. In contrast to

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<sup>61</sup>Regulation of the European Parliament and of the Council on Markets in crypto-assets and amending directive, Article 59 (EU) 2019/1937, Brussels, 24.09.20

<https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52020PC0593>

traditional securities prospectuses, cryptocurrency white papers can be made public even before receiving regulatory approval. Moreover, the framework includes measures to prevent market manipulation and insider trading, similar to those implemented in traditional financial systems.

- Consumers participating in the cryptocurrency market face a significantly higher risk of financial loss, primarily due to the possibility of market manipulation. This risk can be mitigated by recognizing these assets as legitimate financial products, subject to relevant regulations. By legalizing the status of these digital assets, the practice of insider trading will be criminalized, thereby providing users with protection against potential financial crimes.
- The TFR obliges exchanges to foresee and detect addresses from the sanctioned list and to identify and trace all crypto transfers.

In many terms, Kyrgyzstan demonstrates alignment with the regulations established by the European Union, particularly concerning the licensing of exchanges. Nevertheless, it fails in its efforts to ensure the protection of consumers' rights and the implementation of preventive measures against fraudulent schemes and illicit financial activities. The most notable difference lies in the country's incomplete adoption of digital currencies, as their usage as a mean of payment remains prohibited.

Central Asian nations may find inspiration from the European Union's harmonization of legislation as a means to establish a unified approach to the regulation of cryptocurrencies. The collaborative efforts witnessed within the EU's financial system have demonstrated the potential to enhance transparency and security within digital asset systems. The adoption of flexible regulatory policies that can effectively respond to changing cryptocurrency market would be a good option. Important focus would fall on mitigating financial risks and preventing illicit activities. It is also important to implement measures that prioritize consumers' protection, similar to the framework provided by MiCA, in order to foster trust and confidence within the cryptocurrency market. Rather than trying to fit cryptocurrencies into existing traditional regulatory classifications or frameworks designed for traditional financial system, it is more rational to modify regulations in a manner that accommodates the unique characteristics of digital assets. Introducing measures like TRF can enhance compliance with international norms, particularly with regard to issues related to sanctions. The development of a comprehensive monitoring and evaluation plan is crucial to

assess the efficiency of regulatory measures and make timely adjustments as necessary. By aligning regulatory practices with global standards, Central Asian countries can facilitate smoother international transactions and collaborations.

In conclusion, the EU experience presents a valuable model for Kyrgyzstan and Central Asian countries, providing insights into effective regulatory practices within the dynamic and evolving nature of cryptocurrencies. By adapting and tailoring these practices to suit local contexts, Kyrgyzstan and other Central Asia can establish a regulatory environment that promotes innovation, safeguards consumers, and mitigates illicit risks.

## **6.2 Current regulatory framework in Kyrgyzstan**

The establishment of regulatory framework encompassing digital currencies or virtual assets is of utmost significance in meeting the threats related to money laundering in Kyrgyzstan. The nation's strategy towards cryptocurrency regulation is characterized by a willingness to adopt the technology with minimal risks and negative consequences. Kyrgyzstan has adopted a relatively progressive position in regards to the regulation of virtual assets (VAs). Rather than implementing a complete prohibition, the government acknowledges the inescapable nature of cryptocurrency integration within its monetary framework. This accommodating strategy is in accordance with global suggestions, notably those suggested by international institutions (mainly FATF) that stimulated the government to introduce proper legislation.

In the Kyrgyz Republic, the following regulatory legal acts apply to virtual assets (VA) and virtual asset service providers (VASPs):

Civil Code of the Kyrgyz Republic;

Criminal Code of the Kyrgyz Republic;

Law "On the Securities Market" dated July 24, 2009, No. 251;

Law "On the Licensing and Permitting System in the Kyrgyz Republic" dated October 19, 2013, No. 195;

Law "On Combating Money Laundering and Financing of Terrorism" dated August 6, 2018, No. 87;

Law No. 12;

Government Resolution "On Measures for Implementing the Law of the Kyrgyz Republic "On Combating Money Laundering and Financing of Terrorism"" dated December 25, 2018, No. 606;

Cabinet of Ministers Resolution "On the Regulation of Relations Arising in the Circulation of Virtual Assets" dated September 16, 2022, No. 514;

National Bank Management Board Resolution "On Approving the Procedure for Providing Services Related to Virtual Assets" dated February 3, 2023, No. 2023-P-14/8-2-(NPA).

As it is stated in the main law on virtual assets (Law No 12) the general principles of state regulation of activities in the field of virtual assets include expediency, adequacy, balance and predictability<sup>62</sup>. Putting aside the fact of accidental coincidence with the same principles mentioned in the same law of the Russian Federation, these principles look good for building comprehensive regulating framework. In other words, if realized fully, this system should be justified by the importance of regulating the circulation of digital assets to guarantee progress in technology, prevent, and diminish risks (expediency). It should also ensure proportionality of risks, forms, and levels of regulation of the circulation of virtual assets, taking into account all acceptable alternatives (adequacy). It also needs to ensure a balance of interests of participants in the circulation of virtual assets in regulatory activities (balance). And finally, it is supposed to be regular in maintaining, encompassing strategies for creating regulatory legal documents, enabling individuals engaged in the trading of digital assets to benefit from their activity without causing risks and losses (predictability).

The following analysis of the regulative framework will examine the correspondence of existing legislation and mechanism to the above mentioned principles.

Expediency: The introduction of this principle reflects a clear understanding of the importance of regulating digital assets to encourage technological advancement. Kyrgyzstan recognizes that embracing digital assets, while ensuring proper oversight, is essential for economic and technological progress.

“The main directions of state policy in the sphere of turnover of virtual assets are as follows:

- State regulation of relations in the sphere of turnover of virtual assets;
- Creating favorable conditions for the development of the turnover of virtual assets;
- Staged implementation of modern types of relationships by various subjects using distributed ledger technology, including blockchain, smart contracts, and other similar technologies in the sphere of turnover of virtual assets;
- Ensuring transparency of state regulation in the sphere of turnover of virtual assets;

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<sup>62</sup> Article 8, Zakon Kyrgyzskoy Respubliki O Virtualnyh Aktivah ot 22 yanvarya 2022goda. <http://cbd.minjust.gov.kg/act/view/ru-ru/112346>



- Ensuring equality, as well as comprehensive effective mechanisms for protecting the rights and interests of all participants in the turnover of virtual assets;
- Providing protection against unfair competition in the sphere of turnover of virtual assets;
- Training highly qualified personnel in the field of distributed ledger technology, including blockchain, and the turnover of virtual assets;
- Conducting studies and research on the implementation of distributed ledger technology, blockchain, and other similar innovative technologies in various industries and regulation of relations arising from their implementation and use;
- Implementation and application of appropriate supervisory mechanisms in the sphere of turnover of virtual assets;
- Development and strengthening of international cooperation in the sphere of turnover of virtual assets”<sup>63</sup>.

At least two of declared objectives of the state policy on virtual assets contradict real state of affairs. For example, mentioned “creating favorable conditions for the development of the turnover of virtual assets” does not align with current state ban on using crypto as a currency prohibiting to buy and sell the goods and services with digital assets. Another contradiction lies between mentioned “training highly qualified personnel in the field” and real state of capacity of the most officials involved in monitoring, controlling and investigating crypto currency money laundering actions (based on the results of all interviews: both human and technical capacity of the state institutions does not meet current needs).

An expediency-driven regulatory framework should be built on necessity to prevent and reduce risks associated with cryptocurrencies. Declaration of this principle points out that the unregulated circulation of digital currencies poses risks, including money laundering and terrorist financing. There is no doubt that crypto is to be permitted in foreseeable future. The question is on the level of adoption. According to the experts, ideally the digital currencies are to be adopted fully (especially for private sector and general population (grass-root usage) since it offers new opportunities for having an income, it suggests alternatives for local currencies which are not always stable, and finally it provides new innovative and

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<sup>63</sup> Zakon Kyrgyzskoy Respubliki O virtualnih aktivah as of January, 21 2022 N12, Article 7  
<http://cbd.minjust.gov.kg/act/view/ru-ru/112346>

entrepreneurial possibilities which is also good for the government that can benefit from taxing and other flows to the national budget. But the current legal framework does not provide conditions for maximizing the advantages of cryptocurrencies circulation. In the Kyrgyz Republic crypto currencies are defined as “virtual assets and are not considered to be means of payment, currency and (or) security on the territory of the country”.<sup>64</sup>

Adequacy: There is no single mentioning of “digital assets”, “virtual assets” or “digital/crypto currency” in the existing AML law. The overall law is built around preventing money laundering tactics within banking and other financial institutions system. The legal framework handles such a preventive tool as a National assessment of the risks<sup>65</sup> undertaken by the Cabinet of ministers every three years. The results of mentioned assessment are used to complement the National strategy to decrease revealed risks. This strategy employs risk-based approach which runs a red thread through is the overall AML policy of the country.

Although on paper the legislative foundation in aforementioned sphere looks good there is explicit sign of inadequacy within the existing regulatory framework. The recent Law on voluntary legalization and amnesty of individuals’ assets adopted in June, 2023<sup>66</sup> is a good example. Official aim of this law is *“to attract the assets and incomes of individuals into legal economic circulation; increasing domestic and foreign investments in the economy of the Kyrgyz Republic; reducing the share of the shadow economy;”*<sup>67</sup> According to this law all the assets (*vehicles and real estate, funds in bank accounts, cash in the Kyrgyz Republic and/or abroad, securities, virtual assets, shares (stakes) in the charter capital and assets of commercial organizations in the Kyrgyz Republic and/or foreign organizations*)<sup>68</sup> can be legalized though filling and submitting the special declaration with actual assets with all the possible tax relief preferences and no investigation or prosecution

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<sup>64</sup> Zakon Kyrgyzskoy Respubliki O virtualnih aktivah as of January, 21 2022 N12  
<http://cbd.minjust.gov.kg/act/view/ru-ru/112346>

<sup>65</sup> Commission on the issues of countering financing terrorism and legalization (laundering) of illicit funds

<sup>66</sup> “Zakon Kyrgyzskoy Respubliki o dobrovolnoy legalizatsii i amnistii aktivov phizicheskikh litz” as of 6<sup>th</sup> of June 2023, N117  
<http://cbd.minjust.gov.kg/act/view/ru-ru/112599>

<sup>67</sup> “Zakon Kyrgyzskoy Respubliki o dobrovolnoy legalizatsii i amnistii aktivov phizicheskikh litz”, Article 2. as of 6<sup>th</sup> of June 2023, N117  
<http://cbd.minjust.gov.kg/act/view/ru-ru/112599>

<sup>68</sup> “Zakon Kyrgyzskoy Respubliki o dobrovolnoy legalizatsii i amnistii aktivov phizicheskikh litz”, Article 2. as of 6<sup>th</sup> of June 2023, N117  
<http://cbd.minjust.gov.kg/act/view/ru-ru/112599>

will follow. The exception are the assets cases of terrorism and extremism, financing of terrorist and extremist activities, income generation through human trafficking, illegal drug trafficking, arms trafficking, as well as the commission of crimes against individuals and private property and ongoing court cases. This law provides unprecedented loophole for legalizing the assets gained through smuggling, corruption, banditry and money laundering. And the main indicator of mis adequacy and mis expediency of the law is in contradiction of above mentioned aim to reduce the country's shadow economy and the actual risks it brings.

According to the experts of Legal clinic Adilet, this law can “*lead the republic to be placed on the so-called "grey list" of the FATF group. After this, state, financial institutions, and the business community of Kyrgyzstan will face problems, leading to serious consequences for the country*”<sup>69</sup>, since it contradicts to the most of international obligations made by the country. An interesting thing about this law is that unlike the main Law to counter money laundering and financing terrorism<sup>70</sup> it contains “virtual assets” in the list of assets that can be legalized. This fact makes to think that government recognizes the role and growing scale of cryptocurrencies in both traditional and “grey” economy.

Balance of interests: this principle is not in place within the current legal framework regulating cryptocurrencies in the country. For example, the Law No12 is fully centered on protection of the governments' interests and neglects the rights of crypto users. The problem is assumably that government treats crypto mainly as a threat to the local fiat currency som, although there is no strong logic since som is already vulnerable compared with the involvement of US dollars in the local market (although current legislation prohibits to make any deals in foreign currencies, the USD remains the main reference point for estimating the cost and as a guaranty of preserving this cost.) Assumably, that is why the Kyrgyz government had doubts before adopting the crypto as a virtual asset and not permitting the citizens to use it as currency for making deals. By this point, probably the state does not see much interest in the full adoption of crypto in the country. With the current partial asset role

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<sup>69</sup> “Zakon o legalizatsii aktivov protivorechit mejdunarodnim dogovoram”, April,13 2023, 24kg [https://24.kg/obschestvo/263575\\_zakon\\_olegalizatsii\\_aktivov\\_protivorechit\\_mejdunarodnyim\\_dogovoram\\_adilet/](https://24.kg/obschestvo/263575_zakon_olegalizatsii_aktivov_protivorechit_mejdunarodnyim_dogovoram_adilet/)

<sup>70</sup> Zakon Kyrgyzskoy Respubliki O protivodeystvii finansirovaniyu terroristicheskoy deyatelnosti i legalizatsii (otmyvaniyu) prestupnih dohodov, as of 6<sup>th</sup> of April 2018, N 87 <http://cbd.minjust.gov.kg/act/view/ru-ru/111822>

of crypto, the only economic benefit for the government is taxation (mainly for miners) according to the Law 12. But this law doesn't provide an overview of other benefits such as general growth of economy and more possibilities for the general population. Moreover, government treats crypto as an additional way to launder money which is partly true, but only if there is no proper regulation in place.

Predictability: this principle in the case of Kyrgyzstan is the most challenging since there is no any guaranties from the side of government. For now there is no clearly outspoken position of the government regarding crypto ( it balances between a kind of “fear” as a threat to local som and rather “logical” adoption and regulation of the crypto (probably mainly because as a commitment to the membership in international institutions and unions as FATF and EAG) . Unfortunately, no big popular actions are undertaken by the head of the republic which means that current regulation can be changed easily in a day just in the form of personal decree. This situation causes serious concerns for all the actors of crypto system: mainly it affects private sector (entrepreneurs, service providers and the most important ordinary crypto users). The other example of the lack of predictability principle is the above-mentioned Law on legalization and amnesty of the assets, the normative act that barely has any precedents in other countries and whose adoption turned out to be full surprise for civil society, legal experts and population in general. In general, this principle does not really work in the local circumstances taking into account the number of made changes into the main law of the country – Constitution of the Kyrgyz Republic. No need to talk about the regularity or sustainability of the rest legal framework in the country.

The legal framework in the field of countering financing terrorism and money laundering formally handles risk-based approach. “The goal of the risk-based approach is to identify risks, manage them, and redistribute the available resources (human, technical, and financial) of the regulatory bodies for auditing the activities of entities under their supervision, primarily those subjected to high risk”.<sup>71</sup>

However, there are notable gaps in the oversight of the virtual assets system. And the main shortcomings revealed as of the overview and analysis of the current legislation are: lack of comprehensive AML procedures incorporated into the regulation of VAs circulation, unregulated foreign based platforms (VASPs), capacity challenges (both human and

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<sup>71</sup> Chapter 4, Polojenie o poryadke provedeniya proverki ispolneniya zakonodatelstva Kyrgyzskoy Respubliki v sfere protivodeystviya finansirovaniyu terroristichestoy deyatelnosti i legalizatsii (otmyvaniyu) prestupnih dohodov ot 25 dekabrya 2018goda

<http://cbd.minjust.gov.kg/act/preview/ru-ru/12925/10?mode=tekst>

technological), focus on miners and licencing, lack of responsibility for investment losses and limited political initiative.

Traditional banking systems are the subject for more or less strict anti-money laundering (AML) procedures; however, the same degree of regulation is not consistently applied to cryptocurrency transactions. There are no mentioned specific tools and mechanisms to counter crypto money laundering in any of the normative documents above. For example, the main law on virtual assets (Law No12) has just short article 33 presenting very vague formulation of VASPs (exchanges) and miners' obligation on ensuring AML policies with no further definitions and explanations<sup>72</sup>. One of the AML tools could be comprehensive range of "red flags" matrix for VASPs to report on suspicious operations within the cryptocurrency domain (which yet have to be elaborated as mentioned in the interview with the representative of the law enforcing agency).<sup>73</sup>

The current legal framework regulating virtual assets in Kyrgyzstan, encompassed within laws such as Law No12, the Anti-Money Laundering (AML) law, and the Penal Code, exhibits a comprehensive approach involving monitoring, preventive measures, and punitive elements. Nevertheless, upon undertaking a critical analysis, it becomes evident that the regulatory framework, despite its various components, confronts significant obstacles, decreasing its complete efficacy.

One of the concerns relates to the limited utilization of digital currencies as a mean of payment. While the acquisition and sale of virtual assets are permitted, the legal structure does not facilitate the widespread acceptance of digital currencies for commonplace transactions. This restriction inhibits the complete range of advantages that digital currencies could bring to economic expansion and technological advancement. To cultivate a flourishing virtual asset ecosystem, it is essential to acknowledge and incorporate digital currencies as a valid mean of payment.

The regulatory focus seems to be inclined towards the preservation of the government's limited concerns, such as taxation and the regulation of virtual asset service

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<sup>72</sup> Article 33, Zakon Kyrgyzskoy Respubliki O Virtualnyh Aktivah ot 22 yanvarya 2022goda. <http://cbd.minjust.gov.kg/act/view/ru-ru/112346>

<sup>73</sup> "There are still no defined red flags for identifying the operation to be suspicious. So we have to check huge amount of cases that were intuitively named as "suspicious" and sent to us just in case". The Interview with law enforcing officer, August, 17 2023.

providers. Although there are existing tools to combat money laundering, the legal framework lacks specificity in safeguarding the rights of ordinary consumers. The emphasis on preserving governmental interests may unintentionally overlook the protection of individual users who engage in virtual asset transactions. A comprehensive regulatory framework should aim to strike a balance between government interests and individual rights, thereby ensuring a fair and secure environment for all participants.

The regulatory toolkit currently lacks specific measures to regulate unlicensed virtual asset exchanges. Within the growing crypto landscape, we are observing the rise of platforms that operate without adhering to established regulations. In order to uphold the integrity of the virtual asset ecosystem, it is crucial to implement regulatory mechanisms that can efficiently oversee and manage unlicensed exchanges. This entails establishing a licensing framework that enforces strict prerequisites, thereby discouraging illicit activities.

The existing regulatory framework lacks a concrete action strategy aimed at methodically enhancing the capabilities of regulatory entities. The interviews carried out shed light on shortcomings observed in both the human and technological capabilities present within regulatory bodies. Addressing this gap in capacity is imperative in order to ensure the efficient enforcement of regulations and the ability to proactively tackle emerging challenges in the ever-evolving realm of virtual assets.

The identified shortcomings are, to some extent, a result of the developing state of cryptocurrency circulation in Kyrgyzstan. However, this early stage also offers a distinctive chance. By drawing lessons from the experiences of other nations, Kyrgyzstan possesses the benefit of constructing a regulatory framework that is not only strong but also tailored to its specific socio-economic circumstances. There exists an opportunity to capitalize on global superior methods, incorporating acquired knowledge to establish a regulatory atmosphere that fosters ingenuity while ensuring safety and adherence.

Addressing these challenges requires a multifaceted approach. Initially and primarily, it is important to enact legislative amendments that explicitly acknowledge and enable the utilization of digital currencies as a means of payment. This can be complemented by comprehensive measures aimed at safeguarding consumers, thereby ensuring the preservation of individual users' rights.

The establishment of a regulatory structure to license and supervise exchanges of virtual assets is of utmost importance. These measures serve as a deterrent to illicit activities,

fostering a secure environment for users. At the same time, enhancing the capabilities of regulatory bodies through tailored training programs and collaborations with international organizations is crucial in keeping pace with technological advancements and global best practices.

In conclusion, Kyrgyzstan finds itself at a critical juncture where proactive regulatory measures can shape the future integration of virtual assets. By addressing the identified gaps and capitalizing on the current stage of development, Kyrgyzstan has the potential to emerge as a pioneer in formulating an effective, adaptable, and encompassing regulatory framework for the dynamic realm of virtual assets.

### **6.3 Policy recommendations for enhancing regulatory measures**

Based on the mentioned flaws in existing legislation following recommendations can be made:

- To ensure the protection of virtual assets users, it is important to complement the existing measures by incorporating specific provisions within the regulatory framework. These provisions should be designed to safeguard the rights of individuals participating in virtual asset transactions. One possible approach could involve the formulation of comprehensive guidelines regarding to dispute resolution, fraud prevention, and protection against deceptive practices.
- To enhance the Anti-Money Laundering (AML) law within the current legal framework to ensure comprehensive protection. This can be achieved by incorporating a detailed set of guidelines and measures that extend beyond the general AML tools, specifically tailored to address the unique challenges and risks posed by virtual assets.
- To implement regulatory measures aimed at monitoring and managing unlicensed virtual asset exchanges. This may entail the establishment of a licensing framework along with rigorous prerequisites for exchanges to operate lawfully. Such measures are essential to safeguard the interests of users and maintain the integrity of the financial system.
- To develop a comprehensive plan to enhance the capacity of regulatory bodies responsible for overseeing virtual assets. This plan should include the implementation of training programs, fostering collaboration with international organizations, and

staying updated of technological advancements and global best practices in the realm of virtual asset regulation.

- To review and update regulations on the permanent basis due to the constantly changing nature of the cryptocurrency industry. It is crucial to establish mechanisms that allow for the regular assessment and modification of existing regulations. This approach ensures that the regulatory framework remains adaptable and responsive to the evolving technologies and emerging risks associated with virtual assets.
- To promote collaboration with international organizations and regulatory bodies in the realm of virtual asset regulation. By fostering cooperation and knowledge sharing with these entities, best practices can be exchanged and applied. This collaborative effort contributes to the development of a robust regulatory framework that aligns with global standards, ensuring the effectiveness and comprehensiveness of virtual asset regulations.
- To educate businesses and the general population about the various benefits, risks, and responsible usage of virtual assets. Such initiatives contribute to the development of a more knowledgeable and supportive ecosystem.
- To encourage political will and initiative from the government in order to adopt a proactive approach towards regulating virtual assets. This requires adopting international guidelines and customizing regulations to address the specific requirements and obstacles faced by the country.

By adhering to these suggestions, Kyrgyzstan can strive towards establishing a more efficient and all-inclusive regulatory framework for cryptocurrencies. This will contribute to the promotion of economic growth, technological advancements, and safeguarding the interests of both consumers and the financial system and ensuring robust AML system.

## **Conclusion**

Based on the findings of the research I can anticipate that the earlier put forward hypothesis (“The emergence of cryptocurrency starts to affect the prevalence and methods of money laundering in Kyrgyzstan. Cryptocurrency adoption has provided money launderers with new avenues for hiding the origins and destinations of illicit funds, bypassing traditional financial controls, and exploiting specific features of cryptocurrency to facilitate money laundering activities.”) has reason to have been proved. The evidence is presented on the following points:



- Cryptocurrencies are predominantly utilized in Kyrgyzstan for the purpose of transferring money and conducting commercial transactions. This phenomenon can be attributed to the notion that the decentralized and borderless nature of cryptocurrencies can be exploited by money launderers in facilitating the transfer of illicit funds.
- Observations reveal that a considerable proportion of cryptocurrency trading takes place in unlicensed exchanges, particularly within the Mossovet district of Bishkek. These unlicensed exchanges, failing to employ anti-money laundering (AML) and know your customer (KYC) procedures, serve as the centers for illicit activities, enabling money launderers to operate with reduced scrutiny.
- The collected data suggests the existence of challenges within the regulatory framework, as numerous exchanges operate in the "black" or "grey" market. The absence of rigorous regulations and monitoring could foster an environment conducive to money laundering.
- The case study presented on the official website of the Supreme Court of the Kyrgyz Republic illustrates the utilization of internet shops in Telegram channels to sell synthetic drugs, with Bitcoin being accepted as a form of payment. This concrete example demonstrates the illicit use of cryptocurrencies.
- It is widely acknowledged by experts and officials that cryptocurrency trading is inherently global in nature. This global characteristic implies that individuals involved in money laundering activities in Kyrgyzstan could exploit the borderless nature of cryptocurrencies to engage in international transactions, thereby complicating the process of tracking and regulating such activities.
- Law enforcement officials anticipate a noteworthy increase in the number of money laundering cases involving cryptocurrencies in the next 5-10 years. This projection highlights the growing apprehension surrounding the potential misuse of cryptocurrencies for illicit financial endeavors.

The results of this study confirm the hypothesis that the rise of cryptocurrency has indeed affected the occurrence and techniques of illicit financial transactions in Kyrgyzstan. The support for this claim is diverse, originating from an examination of the nation's digital

currency landscape, regulatory system, and real-life examples of misuse. As we explore the intricacies of the evidence in more detail, it becomes clear that the influence of cryptocurrency adoption on money laundering is a multifaceted interplay of challenges in regulation, advancements in technology, and evolving financial practices.

In general, the evidence obtained from the initial information is in line with the proposed hypothesis. The prevalence of stablecoins, the specific utilization of cryptocurrencies for monetary transfers, the existence of unlicensed exchanges, challenges within the regulatory framework, and real instances of cryptocurrency misuse in illicit activities collectively suggest that the adoption of cryptocurrencies in Kyrgyzstan indeed impacts the methods and prevalence of money laundering.

Kyrgyzstan has the capability to create a regulatory atmosphere that is specifically designed for the local circumstances. In this regard, it is important to give priority to fostering innovation, ensuring consumer protection, and addressing the risks associated with illegal activities. However, the current legal framework, although it includes elements of monitoring, prevention, and punishment, is not fully effective. To address this, it is recommended to improve measures to protect users, strengthen laws against money laundering, monitor unauthorized exchanges, enhance capacity building efforts, regularly review regulations, foster international collaboration, promote educational initiatives, and take proactive steps by the government.

The flaws identified in the current legislative framework indicate the necessity for thorough policy recommendations. These recommendations are imperative not only for the prevention and mitigation of money laundering risks, but also for the promotion of an enabling environment for legitimate cryptocurrency activities. The subsequent suggestions include guarantees to safeguard users of virtual assets, the regulatory framework should integrate specific provisions that address dispute resolution, fraud prevention, and protection against deceptive practices. This will ensure the preservation of the rights of individuals engaging in virtual asset transactions.

There is need to reinforce the AML legislation within the current legal framework. This entails incorporating detailed guidelines and measures that surpass general AML tools, specifically designed to tackle the unique challenges and risks posed by virtual assets.

Regulatory measures should be implemented to supervise and administer unlicensed virtual asset exchanges. This may involve establishing a licensing framework with rigorous prerequisites for exchanges to operate lawfully, which is essential for safeguarding user interests and maintaining the integrity of the financial system.

A comprehensive plan should be devised to enhance the capabilities of regulatory bodies overseeing virtual assets. This plan should encompass training programs, collaboration with international organizations, and staying up-to-date with technological advancements and global best practices in virtual asset regulation.

Given the dynamic nature of the cryptocurrency industry, it is crucial to regularly review and update regulations. Establishing mechanisms for the periodic evaluation and modification of existing regulations ensures adaptability and responsiveness to evolving technologies and emerging risks.

Collaboration with international organizations and regulatory bodies is of utmost importance. By fostering cooperation and the exchange of knowledge, best practices can be shared and applied, contributing to the development of a strong regulatory framework in line with global standards.

Encouraging political will and initiative from the government is vital. By adopting international guidelines and customizing regulations to address specific country requirements and obstacles, a proactive approach towards regulating virtual assets is demonstrated.

By adhering to these recommendations, Kyrgyzstan can progress towards establishing a more efficient and comprehensive regulatory framework for cryptocurrencies. This approach is not merely focused on preventing illicit activities, but also on promoting economic growth, technological advancements, and ensuring a robust AML system.

### **Contribution to knowledge and future research suggestions**

This research establishes the foundation for future contributions to knowledge in the following areas:

Subsequent investigations may further explore the comprehensive impact of cryptocurrencies on the economy of Kyrgyzstan, encompassing both favorable and unfavorable consequences. This entails the examination of their role in fostering innovation, facilitating economic growth, and promoting financial inclusion, as well as their association with illicit activities.

Conducting comparative analyses with other nations in the Central Asian region can yield valuable insights into the effectiveness of regulatory measures. This endeavor can identify exemplary practices and facilitate the formulation of strategies for achieving legislative harmonization across borders.

The examination of the integration of technological advancements, such as blockchain, within the realm of regulatory frameworks holds promising potential. The incorporation of smart contracts and distributed ledger technology possesses the capability to increase both the transparency and security of financial transactions.

Analyzing the behaviors of the users of cryptocurrencies and individuals involved in money laundering could serve as a profoundly valuable area of investigation. Analyzing behavioral patterns can provide important insights that can subsequently be used in the development of precisely targeted interventions and informative campaigns.

Performing a long term analysis to monitor and document modifications in regulatory frameworks on cryptocurrencies in Kyrgyzstan throughout a prolonged duration. This examination has the potential to reveal patterns, adjustments, and the efficiency of policy interventions.

Undertaking a comprehensive inquiry into particular cases of unlawful activities associated with cryptocurrencies in Kyrgyzstan. By comprehending the modus operandi, vulnerabilities exploited, and the socio-economic consequences, it becomes possible to develop precise interventions that address these concerns.

Gathering viewpoints from a diverse array of stakeholders, encompassing government officials, law enforcement authorities, users of cryptocurrency, and businesses. This endeavor can foster a more intricate comprehension of the challenges and potential solutions.

Analyzing the manner in which changes in the regulatory framework impact the adoption of cryptocurrencies across businesses and the general population. This endeavor can yield valuable insights into the correlation between regulatory clarity and the acceptance of cryptocurrencies in the market.

Promoting collaborative analyses that transcend disciplinary boundaries, involving economists, legal experts, and technology specialists. This collaborative effort can engender comprehensive insights into the multifaceted impact of cryptocurrencies on a nation's economy.

In conclusion, while this research makes a contribution to comprehending the current state of cryptocurrency and its association with money laundering in Kyrgyzstan, there remains extensive opportunity for future studies to further deepen and broaden our knowledge in this evolving landscape.

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## **Appendix A**

### **Questions of the interview with law enforcing officers**

What are the main differences between traditional money laundering and money laundering involving digital currencies in Kyrgyzstan?

Could you share the most memorable examples of money laundering cases involving cryptocurrency in Kyrgyzstan?

What predicate crimes are behind most money laundering cases in the country, both in general and involving digital currencies?

Are there specific practices from other countries in regulating digital currencies and combating money laundering that, in your opinion, could be applicable in our country?

What tools for detecting and analyzing cases of money laundering with cryptocurrencies does your agency have?

What measures to enhance the capabilities of authorities in controlling Virtual Assets (VAs) would you propose?

Based on your experience, how effective are the existing regulations in restraining money laundering using digital currencies in Kyrgyzstan?

Given the peculiarities and challenges of money laundering involving digital currencies, what recommendations would you offer to strengthen the effectiveness of existing regulations? (What would you suggest for monitoring the activities of VA service providers registered abroad but having clients in the country? Or shadow VASP activities? The same with mining activities.)

In your opinion, what are the key technological deficiencies that contribute to money laundering with digital currencies in the country?

What are your forecasts regarding the level of cryptocurrency involvement in money laundering processes in the country in the next 5-10 years?

## **Appendix B**

### **Questions of the interview with the experts**

Which cryptocurrencies are the most commonly used in Kyrgyzstan?

What is the potential of cryptocurrencies in the Kyrgyz Republic?

How do you assess the risk of cryptocurrency involvement in money laundering processes? What characteristics of cryptocurrencies would you consider potentially attractive to money launderers?

In your opinion, what is the scale of money laundering using digital currencies in Kyrgyzstan?

Are there specific practices from other countries in regulating digital currencies and combating money laundering that, in your opinion, could be applicable in the context of our country?

Based on your experience, how effective are the existing regulations in restraining money laundering using digital currencies in Kyrgyzstan?

How do you assess the capacity (human, financial, technical) of government agencies to detect and investigate money laundering involving cryptocurrencies?

Given the peculiarities and challenges of money laundering involving digital currencies, what recommendations would you offer to strengthen the effectiveness of existing regulations?

In your opinion, what are the key technological deficiencies that contribute to money laundering with digital currencies in the country?

What are your forecasts regarding the level of cryptocurrency involvement in money laundering processes in the country in the next 5-10 years?

Your suggestions for improving mechanisms to counter money laundering using digital currencies in Kyrgyzstan?

## **Appendix C**

### **Questions of the interview with crypto exchanges representatives**

How long have you been working, and why did you decide to open a cryptocurrency exchange?

Which cryptocurrencies are the most popular in Kyrgyzstan? Why?

In your opinion, what is the main advantage for users of digital currencies over traditional ones?

What criteria do clients use when choosing a particular currency?

What is the average amount of purchase/exchange per client?

What was the largest transaction amount in your practice?

Do you implement "Know Your Customer" practices?

Which government agencies and laws regulate your activities?

Does the control from the state cause inconvenience or hinder your activities?

What is the difference between cryptocurrency stock exchanges (facilitating trade between clients) and cryptocurrency exchanges (facilitating exchange)?

How well do you know the legal norms regulating the turnover of virtual assets in Kyrgyzstan?

Have you undergone relevant training in government agencies to study the state's requirements for cryptocurrency regulation?

Do you consider the method of money laundering involving cryptocurrencies more convenient and effective for the launderer compared to other methods?

What technical characteristics of cryptocurrencies make them more attractive for money laundering or complicate the process of tracking the legality of funds?

What do you know about cryptocurrency "mixers"?

What would you recommend to improve cryptocurrency circulation in the country and reduce their involvement in money laundering processes?

Which country's experience would you recommend as the most effective in regulating the turnover of digital currencies?

Your predictions regarding the level of cryptocurrency use in Kyrgyzstan in the next 5 years?

## **Appendix D**

### Questionnaire for money launderer

What predicate offense necessitated the need for the withdrawal of funds/concealment of the source of income/legalization of existing funds (hereinafter money laundering)? (For example, illegal enrichment, tax evasion, illegal sources of income such as drug or weapon trafficking, etc.)

Which cryptocurrency was used in the money laundering process?

How did cryptocurrency transactions contribute to money laundering? Please describe in detail specific tools, mechanisms, and processes. (For example, did the use of private wallets, cryptocurrency exchange services, mixers, "money mules" take place? Describe the timeline and stages of the operation, the conditions and cost of the services, and the final outcome.)

What was the amount in soms that was laundered?

Why was such a method of money laundering chosen?

Can you list the advantages and disadvantages of such a method?

In your opinion, what are the reasons for the increasing number of money laundering cases involving cryptocurrencies in Kyrgyzstan?

Do you consider weak state control over the circulation of cryptocurrencies as one of the reasons?

Do you plan to continue using such a method in the future?

