

Every year, Kyrgyzstan records dozens of financial pyramid schemes, while losses of citizens amount to millions of soms.

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Since the beginning of the year, the country was overwhelmed with a series of events related to financial pyramids. These schemes were reportedly located in various towns and cities of the republic.

Despite the measures taken by the government and the National Bank to improve financial literacy, people still believe in such “miracles” and participate in financial frauds.



The photo is for illustrative purposes only. Author: Tabyldy Akerov, Sputnik

Financial pyramid scheme as it is

The main purpose of such frauds is to recruit as many people as possible, to collect as much money as possible, to conceal the money and to deceive the people recruited. Pyramid schemes are actively promoted by a range of methods: via various websites, social media, by distributing informational leaflets, by word of mouth.

As the National Bank said to CABAR.asia, organisers promise high income in the shortest time possible. They ask for advance payment promising to provide expensive goods or services instead at cheapest prices. To create a longing for easy money among potential customers, organisers of pyramid schemes do give promised incomes, goods or services to the first customers, provided however that they should recruit other clients in the scheme.

The pyramid gets more and more participants, their contributions are used to make payments to the first customers. When organisers understand the pyramid has reached its peak and maximum income, they hide with all their money.

According to the regulatory authority, the main signs of a financial pyramid scheme are:

- 1) No production. Therefore, it cannot provide documents to confirm its performance;
- 2) No state registration;
- 3) No license for a certain kind of activity;
- 4) No information about founders;
- 5) Preliminary and non-repayable contributions – as a prerequisite for further investment of money;

6) Validation of their activity. Representatives of such “projects” refer to general laws, yet they fail to name a specific law that regulates their activity.

In some cases, creators/owners of financial pyramid schemes are registered as legal entities, including abroad. They demonstrate a lot of certificates/acknowledgements of state bodies (sometimes, non-existing ones) on their websites and in their offices to create an illusion of lawfulness and to build trust with them.

How can you understand that you are being recruited for a pyramid scheme:

1. They promise high income, suspiciously favourable conditions that differ much from offers of other banks, financial companies;
2. You see aggressive marketing and advertising;
3. Companies often change their names under the guise of rebranding;
4. Such phrases as “get a friend”/“double your money” for a minimum fee, “send money to phone number...” in advertisements and messages.

If you are already a participant of a financial pyramid scheme and have invested your money, the National Bank recommends you to write a claim as soon as possible against the company. You should demand repayment of money and notify the organisers that if they fail to repay your money, you will go to law enforcement bodies.

The claimant should report to the State Service for Combatting Economic Crimes or the police. You should provide documents proving that you have transferred money to the fraudsters: a contract, a bank statement, a cash receipt, receipts, and other documents.

In addition to the police report, you can file a civil action for recovery of invested money and interest for the use of borrowed money, as the National Bank advises.

According to psychologist **Ildar Akbutin**, organisers of financial pyramid schemes do not use any techniques or methods to recruit investors because all people have weaknesses.

He highlights three categories of people who are exposed to financial frauds.

The first category are people who are short of money. A person joins the pyramid scheme because he needs much money within the shortest time possible, invests money and starts recruiting others. He does it to solve his financial problems.

The second category is illiterate people who join the pyramid schemes because they have little awareness.

The third category is gamblers who are ready to play roulette to see what happens.

“Such people are usually lured not only by pyramid schemes. These are compulsive gamblers, dependent people, who cannot avoid the gambling addiction,” psychologist Akbutin said to CABAR.asia.

“I was trying to study the mental component of the MMM-11 pyramid scheme,” he said. “There will always be three categories of people regardless of the region or the country. This issue might be controlled in the West, but here it is



Ildar Akbutin, psychologist. Photo: Sputnik.kg

quite legal. The pyramid scheme will always take place under various pretexts, legal or illegal.”

The psychologist recommends: before you take part in such organisations, you should apply the following psychological techniques:

1) Ask three people from your inner circle about what they think about your participation.

A person being deluded by hoax is unreasonable and your inner circle must determine the meaning of your participation. Then the chance that you will be deluded is low. – Ildar Akbutin

2) You can easily check if it's a pyramid scheme by asking what you need to take part in it. If they say you should invest some money and then you'll get double income, it is one of the signs of the pyramid scheme. Tell it to your close family members.

3) If you are sceptical about others' opinions, consult a psychologist. Most probably, you have the signs of game addiction, which is the disease.

“My patients are people who try to recover and cannot handle their problems. They start to isolate themselves. When a person gets into delusion, he thinks he will take part on a quiet and then “people will applaud to me,” psychologist Akbutin said.

In the last 10 years, crimes qualified as “fraud” increase steadily. This category applies to all acts related to pyramid schemes. According to the National Statistical Committee of the Kyrgyz Republic, in 2014 there were 2.6 thousand crimes in the country, and in 2018 the number was as high as 4.3 thousand.

The number of citizens committing crimes under the article “fraud” increased in the last ten years from 683 (by results of 2010) to 1,947 people in 2018. In 2010, 340 people were convicted, and in 2018, 517 people.

According to the Criminal Code of the Kyrgyz Republic dated January 1, 2019, liability for creation of pyramid schemes was tightened. The code was amended and article 214 regarding pyramid schemes was introduced. By law, fraudsters may be imprisoned from 2.5 to 7 years depending on the damage they caused. Today the threshold of damage - the amount from 100 thousand som to 500 thousand som - is considered especially big sum and qualifies as aggravating factor.

Despite the article in the Criminal Code, the country still has pyramid schemes. In early 2020, a few similar “projects” were detected in the country.

The latest high-profile scandal related to the pyramid scheme was the statement by the residents of Balykchy in Issyk Kul region.

In September, the claimants reported there were seven pyramid schemes in the town, including six ones that are being prosecuted now: ‘Amal-Ulan’, ‘Balykchy-Yntymak’, ‘Ak-Kuu’, ‘Ak-Tilek’, ‘Yrysky’, ‘Zhurokton Zhurok’, ‘Aruuke’.

According to state bodies, the main kind of activity of such organisations is generation of profits, and they are registered as limited liability companies.



Victim-investors from Balykchy. Photo: Tazabek

According to one of the victims, the resident of Balykchy **Aida Zhakybalieva**, the investigation found out that every pyramid scheme was existing for one to two months and the damage caused, for example, by ‘Zhurokton Zhurok’ was 134 million som (nearly 1.5 million dollars).

“Every scheme had 25-30 groups involved, 250 members in each, and people invested from 10 thousand som (117.9 dollars) to 1 million som (11,792.45 dollars),” Zhakybalieva said to journalists at the press conference in Bishkek. “The conditions were as follows: if you invest 10 thousand som (117.9 dollars), you’ll get 20 thousand (235.85 dollars). At first, people invested money and got it back, and thus were delusional. As the people were financially illiterate, they rose to the bait.

The injured demand that the heads of the pyramid scheme ‘Zhurokton Zhurok’ be imprisoned, but in fact they are at large now – the Balykchy city court released them and put them on house arrest.

The victims complain that the law enforcement bodies “do not investigate the

case”, although new facts continue to arise.

According to Zhakybalieva, three cheated investors of the pyramid scheme could not bear the stress and committed suicide.

“It [Balykchy] has no industry, livestock. People invested their money hoping to make more money. No one can guarantee that this issue won’t arise in other regions,” Zhakybalieva said.

According to Zhakybalieva, in Balykchy the pyramid scheme worked as follows: if the investor invests 20 thousand som (235.85 dollars), he gets 40 thousand som (471.4 dollars) in ten days, out of which they take 10 per cent (5 per cent for the company, and 5 per cent is given as a check for purchasing goods at one of the stores). Of course, the more money was invested, the more income was promised.

Later on, when people stopped investing money, the victims, including Zhakybalieva, went to the regional centre – city of Karakol, and asked for documents on ‘Zhurokton Zhurok’ public foundation at the regional justice authority. However, according to the documents, it was not a public foundation, but a limited liability company.

“They broadcasted their advertisements on the state TV channel ‘Issyk Kul TV’ and in newspapers. We went to the financial police and they told us the investigation was launched on ‘Yntymak-Balykchy’. Besides, the manager of ‘Zhurokton Zhurok’ was trying to open a branch office in Ton district, but the administration of the district did not let her. They called the police by pressing the panic button, and she was detained for 48 hours, but then she was put on house arrest,” she said.

By results of this case, the police reported that seven residents of Balykchy were detained. All suspects were detained and put to the temporary detention facility of Balykchy. On August 18, the court resolved to arrest them for 2 months. The law enforcement bodies have not still reported the stage of the

case.

According to the office of the interior ministry, first a small percentage of the collected amounts was used to pay interest on deposits in order to convince clients of the reliability of the financial organisation and to attract as many participants as possible. For some time, they partially paid off the funds at the expense of money attracted from new investors. Further payments stopped.

To date, 143 reports against two organisations have been registered, including 132 reports under investigation because these crimes qualify as grave and especially grave. Eleven reports are being inquired – these are minor offenses and crimes. Interrogators who can make judicial acts, but do not institute criminal proceedings carry out such inquiries.

Among the possible sources of the pyramid scheme in Balykchy is the scam in Kazakhstan with nearly 1,000 victims. The scammers followed the same scheme as in Issyk-Kul. If a person invested 100 dollars, he was given back 200 dollars in a short time. But after several investments from the participants, the company stopped any contacts. Fraudsters operated not only in Kazakhstan, but also throughout the CIS.

Later on, at the end of August, the Kazakh police extradited a Russian citizen Olga Kleinard from Belarus, who is suspected of organising the Questra World financial pyramid. The woman supervised fraudsters in Kazakhstan. As a result, the damage amounted to 2.4 million dollars. She was placed in a pre-trial detention facility. In total, eight people were detained on this case, including 4 residents of Kazakhstan, who headed the regional offices.

Main reason - lack of financial literacy

Participation in such schemes, unfortunately, is not uncommon today. The reason for this is the low financial literacy in the country and lack of financial education. State agencies represented by the National Bank are making attempts to increase financial literacy, but to no avail so far.

Among the measures taken are the publication of special booklets for adults, distribution of short videos explaining the main topics of financial literacy about the family budget, inflation rate, exchange rate, credit transactions, payment systems, financial frauds.

Last year, the regulatory authority launched Finsabat, a financial literacy web page, offering users a variety of financial education content (e.g., loan calculator, deposit calculator, bank rates, financial literacy tests, educational videos, etc.).

However, these measures are not enough in practice.

“It’s a very low level of financial literacy in Kyrgyzstan. In the last week of October, from October 24 to October 31, we held the World Savings Day, but this was just a one-time event. We need more systematic and purposeful work,” **Anvar Abdraev**, head of the Union of Banks, said to CABAR.asia.



According to him, financial institutions initiate the question of raising financial literacy via introducing special subjects and educational literature.

Anvar Abdraev, expert. Photo: press service of the Zhogorku Kenesh

“We have raised the question that the country needs the all-republican approach. We have also offered to publish textbooks for various educational levels: primary, secondary, higher,” Abdraev said. “The financial sector is ready to help the ministry of education in organising the materials.”

“This would have a greater effect on educating our population,” the head of the Union of Banks of the Kyrgyz Republic said. “Then pyramid schemes and borrowers reports, which have become more frequent recently, would have a different nature. People need to be taught how to use money. I am ready to meet with the minister of education at the state level to resolve this issue.”

Among other options for earning is a whole range of financial services, including buying stocks and bonds, deposits, cooperation with pension funds, and in extreme cases, foreign currency investments. All of these tools should be learned from school.

Refunds from financial frauds are unlikely

According to the financial experts, it is not always possible to get a refund, even if a criminal or civil case is initiated against the organisers. Very often, swindlers manage to spend the money received from depositors by that time.

In other cases, the company is declared bankrupt and the assets of the organisation are used to refund the money, but full refund is a rare thing.

As lawyer **Gulchekhra Murzakhmatova** explained to CABAR.asia, such companies often register the minimum authorised capital of 1,000 som (11.79 dollars), which has enormous risks.



Lawyer Gulchekhra Murzakhmatova. Photo taken from personal account on Facebook

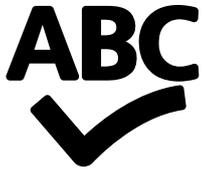
“Think for yourself: if a company has registered this amount, how much can it return, at least to several dozens or even hundreds of depositors? Even if the authorised capital is more than 1,000 som (11.79 dollars), then often such companies are declared bankrupt and you bear a higher risk of non-return of your cash or equivalent funds,” she said.

In addition to the measures proposed by the National Bank, the lawyer proposes to ask for a written agreement with the company, it is advisable to hire a lawyer in order to have a look at the legal documents of the company: check the charter (whether the company has the right under the charter to engage in such activities), the founder, the amount of the authorised capital.

“The agreement between you and the company should contain liability for the risk, whether the company is liable to you in case of failure. For example, if there is some yield, how is it distributed if the company acquires assets (real estate and movable property) at the expense of income, to whose name they will be registered? If a share of the asset is not registered to your name, it is also an indicator of fraud,” lawyer Murzakhmatova warned.

“Ask for the company’s accounting and financial documentation, where you can see the flow of income and expenditure. This is a statement of cash flow,” the lawyer said.

Experts advise citizens to take various advertisements and persons who promise quick and large income, many-fold increase of money with suspicion. There must be fraud and deception behind such big promises. The target of these scammers is your money, and the refund, especially the increase of this amount for you, is not in their plans.



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