

PONZI OPERATION EFFECTS ON SUBSCRIBERS' IN DEVELOPING ECONOMY

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Abstract

This paper examined Ponzi-scheme operations, its attendant problems and effect on different category of subscribers in south-west geo-political zone of Nigeria. A money scheme which rewarded earlier investors with high returns and leave out later subscribers in destitution is a planned financial fraud which needs critical attentions of scholars.

Both primary and secondary data were explored for this study. Random sampling techniques were use with Analysis of Variance (ANOVA). The result showed that there is no significant relationship between Ponzi business operational assets and the deceptive returns promised to subscribers which is an indication that it is a planned fraud. The p-value of earnings to assets of the schemes studied was (0.001) which is lower than (0.005) level of significance, eventual beneficiaries are generally low compared to subscribers that were in the loss bracket as less than ten percent (9.74%) of the identified subscribers benefited compared to (90.26%) of subscribers that experienced drastic loss. The position of laws regulating the financial activities in developing nations are not clearly specific to guide the future decisions of subscribers as almost all subscribers are in quandary on the schemes as shown by the red lines in the graph of effects. The study concluded that all money business that do not possess the required asset-based prescription of Financial Regulations, that claimed to offer outrageous returns to investors and of which floaters identities and operational effects are not duly registered are out to defraud the masses and as such the red flag warnings should be adhered to by the masses.. The paper therefore suggests that floaters of such fraud schemes and their financial institutions should be discouraged through proper checks and depositions from operation by Financial Regulatory Authorities in the economy in order to safeguard masses from being a future victims.

Key words: *Crypto-currency, Ponzi- scheme, Subscribers, Mutual-aid, Ethic-dilemma, Tumult.*

Introduction

Generally, every investments have operational modalities that attracts patronages of member of public due to expected benefits which usually comes in form of gains, bonus or commissions. Benefits accruable to participants in any scheme are the major driver of mad-rush into joining all sorts of business/schemes all over the world. Thus, an ideal investment starts from incurring costs (outflow of monies) which culminated into business - assets before earnings of inflows from selling of products or services. Total inflows must be greater than total outflows for returns to emerge. It is these returns that are distributable to investors and other stakeholders as benefits.

Ideally, this axiom holds for every investment and as such the business must have a legal identity, duly registered and the modus operandi examined and monitored by necessary regulatory authority of the country where such business operates.

Contrary to this background, Ponzi scheme is a money making business which rewards earlier investors with higher returns and swindles away the later investors' monies. It is a white collar crime which at any rate is out to defraud large number of subscribers (CaPRI, 2008).

In developing Nations where the average per capital income is very low and where the financial regulating policies is not sufficiently potent in protecting the masses from the neck twisting schemes, floaters of such business swindles away subscribers' monies when the scheme collapsed.

The white collar crime is often initiated and coordinated by certain individuals who are classified as intelligent, popular and respected in their respected line of work with a chain of connections. It is often floated by respected individuals who work within the financial sectors – banks, mortgage houses, insurance companies, pension fund administrators etc. It is common and usually noticeable during

financial crises. Global economic crisis which culminated into economic recessions in most nations of the world are found to be the lingering factors of the scheme in developing Nations of the world. The global economic crises impacted seriously on shareholder' wealth from April, 2008 – classified as post share crisis period in Nigeria to the extent that investors begin to dread investing in Nigeria stock markets Akande, (2016).

Ponzi schemes has done so much damages on living standard of subscribing masses, its deceptiveness, serious ethical dilemmas and moral delinquencies becomes worrisome especially its continuous metamorphosis despite the fact that individuals as well as institutional investors have lost huge amount of money to these schemes. Employees and civil servants of various caliber are not left out of these deceits and as such, these white “collar crimes” deserves serious attentions of financial scholars and regulatory authorities in developing economy.

Theoretical Framework

Ponzi scheme was first discovered by Edwin Sutherland in 1940 and it was defined as ‘a crime committed by a person of respectable and high social status in the society (Sutherland, 1940). It has affected lives positively and negatively. Some months ago in Nigeria, it affected millions of lives and shook the socio economic of the nation. Many people have argued that the scheme have no effect on the economy of Nigeria but a closer look revealed that they have direct and indirect effect on the components of the economy. At start, the negative effects looks minimal and go largely unnoticed, thus to provide answers to unanswered questions such as why were these investment only revealed in the recessive periods of the economy?, how was the swindler able to maintain the illegal scheme without been brought to book by financial regulatory authorities despite the fact that they operates with financial institutions (mostly banks) that is under the control and purview of financial regulations? Previous researches explored Ponzi schemes in terms of its historical structure and

growth but with scanty literatures on the effect of its operation on subscribers especially in the developing nations. Economy viability is usually measured by the production of goods and services with adequate security on financial services by relevant agencies in the economy. Policy loopholes has been a factor which Ponzi-scheme operators leverage on in most of the country of operation and this has left all forms of subscribers to their unguided faith in developing nations.

What is a Ponzi scheme?

A Ponzi scheme is an illegal cum fraudulent investment where the persons' or organization running it pays returns to existing investors from capital paid by new investors, rather than profit actually earned by the company. The Scheme is named after Charles Ponzi who was the first to use the technique successfully in 1920. The idea presented in novels like Charles Dickens' 1844, Martin Chuzzlewit (1857) and Little Dorrit described Ponzi-schemes but was performed in real life by Charles Ponzi. It became well-known throughout the United States because of the huge amount of money that was swindled by the man and his group. It created illusive picture of the economy because of people's standard of living and subscribers' wealth which were siphoned. Ponzi - scheme was established as a white collar crimes which were perpetrated by those who initiated it, employees who may not have pre-knowledge of the scheme intentions, investors who eventually becomes victims to the branding strategies and law enforcement agencies that failed to check the illegal financial actions at the inception.

Ponzi Operations in Nigeria.

From year 2000 to 2017, there has been seven popular types of Ponzi- schemes that operated in Nigeria - a developing country in African continent of the world. These schemes operated through most visited (blogs) sites and banks, they includes:

Mavordi Mondial Money (MMM): Started in the nineties at Russia but eventually failed. With its resilience, bounced back to operation not only in Russia but in over 20 countries of the world from year 2000. The famous MMM came into Africa and was the latest till 2016 but eventually left its footprints by defrauding newer subscribers in the continent. It entered into Nigeria, the giant of Africa in November 2015. MMM could not succeed at first due to the sharp-wit of Nigerians because the country was not providing the backbone the scheme needed but as at late 2016, it eventually became firmly rooted in Nigeria.

GET HELP WORLDWIDE EXLUSIVE (GHWE): This is a scheme that claims to be a mutual - aid and crowd funding scheme. It offers a platform to operate than MMM. It would seem like they look thoroughly into the popular MMM scheme and decided to make theirs better by targeting all shortcomings of MMM and correcting them. This latest Ponzi scheme offers a 30% cash ROI and 50% in 30 days via Bitcoin – the latest and trending cryptocurrency in the world today.

CLARITTA: This is another varieties of Ponzi scheme which swooped in immediately after MMM broke the hearts of many in the South West Geo-political Zone of Nigeria. Though quite surprising, Nigerians still plunged into it, possibly because of its timing as it was true to its promises at the inception by paying the subscribers immediately their deal matures. The source of the site was latter traced to FASTDOMAIN, INC. which was the domain company where the name was created. Yet information is out that this Ponzi scheme is said to be registered by a Nigerian, on 30th of January, 2017.

TWINKAS: This is a scheme which claims to provide reliability, efficiency, sustainability and trustworthiness to its members. It offers a 100% cash as ROI in less than 21 days with a 5% referral bonus as commission. It does not interfere with transaction between the payer and payee and has a

time limit of 24 hours for pledge payment and activation. The scheme has been said to have disappeared but it is also said to be back again and some people are giving their testimonies on it.

NNNN NIGERIA: This is one of the current Ponzi schemes as it is an upgraded MMM Nigeria Ponzi scheme with automated system that prevent moratorium as can be found in the former. MMM Nigeria was launched in August 2017 and has the same ideology just as MMM. It is claimed to be owned and ran by the participants. An upgraded version of MMM with a launch date just few months before the former version suspended their activities due to the reasons that the new Ponzi scheme was upgraded leaves much to be suspected.

COMMUNITY MUTUAL AID: This is a new scheme which was launched on the 1st of March, 2017. Owners of this platform are not known as it is also claimed to be created for the people and for the people, and so rely greatly on the participants to keep it going. This scheme involves creation and fulfillment of dreams, be it paying of loan, building house, etc. The scheme has claimed to have some features which include the use of secret pin known to the CMA holder only, protection of the site by SSL security, use of auto confirm for bitcoins pledges to eliminate fake payments.

WEALTHFUNDZ: This scheme was Launch on June 1st, 2017, this is one of the current Ponzi schemes that offers platform of no upgrade issue, verification of phone number, no allowance of multiple accounts, provision of help at any time. It is said to use a security system of commodo HTTPS. This scheme has its get help in hours between 6am – 8am and 6pm – 8pm. This Ponzi scheme also offers a 50% cash ROI and has a time limit for pledges payment which is 6 hours. Participants get help within 1 – 24 hours after providing help to fellow participants of the scheme. Members thinking they can play smart and do not conform to the scheme rules are said to be blocked automatically.

With the vision of financial apocalypse that promised to break financial chains of slavery and make all equal, offers a 30% return on investment (ROI) in 30days. At first, it honored its words such that the website of the MMM financial pyramid, created by Sergei Mavrodi, became even more popular than social network Facebook in the number of users in the country by the end of December, 2016. It was later reported on the 13th of December, 2017 that all members account had been frozen for negative publicity and overloading of the system and it developed its popular anguish slogan in Nigeria.

GHWE offers a platform with no guide lines, such that there are no ridiculous or exaggerated

PONZI SCHEME REGULATIONS IN NIGERIA

Now the question is why would these Ponzi schemes be considered better than one another? MMM and the rest offered a platform with no guides and regulations yet they thrives in the developing economy and so there are no ridiculous or exaggerated amounts and returns that this business will not siphon. All the rules that applies in setting up of banks and any other financial institutions are practically covered under the Bank and Other Financial Institutions Act of 2004 yet these unlawful business continues until it create disasters in the economy.

The Russian government did not interfere with the activities of the MMM and in just a few months, the number of contributors, according to estimates recorded in 1998 reached 2 – 10 million people. Subscribers are seen crowded at the point of receiving money to exchange their salaries and pensions on the promise of fabulous profits. The Operator involved in the real business world was not known by law of the land. This really encouraged the defrauders. They defrauded savings from naive depositors.

Mavrodi brothers played on the credulity of the majority of the population and on the greed of those who did not understand the essence of the game, but he hoped to get out of it in time by getting 'easy money on various investment schemes. The Securities and Exchange Commission (SEC) in Nigeria warned the public on the activities of some online investment scheme currently making waves, that the promoters of the scheme carry out their business activities via Nigeria.mmm.net portal/platform, and are promising investors a monthly investment return of 30 per cent. SEC said the venture had no tangible business model, describing it as a Ponzi scheme, where returns would be paid from other peoples' invested funds. The notice on SEC's website thus read, "The attention of SEC, Nigeria has been drawn to the activities of an online investment scheme tagged 'MMM Federal Republic of Nigeria (nigeria.mmm.net). This serves as a public orientation and media education but the floaters of the scheme were left untackled by the law from the financial regulatory authorities.

Finance Controlled Models

Government Control Model: In the government controlled model, a business or financial activity is more or less a government department with no private individuals having unguided control in the economy. The Ponzi scheme operations fall in between this model such that the establishment of various financial regulatory authorities such as Central Bank of Nigeria, Ministry of finance, Economic and Financial crime Commission, Security and Exchange Commission having legitimate responsibility for regulating and stopping the operations of the fraudulent activities before it go spiral in the economy.

The Institutional Theory: This theory incorporates the traditional finance that assumed that investors are to be fully rational and the market institutions are to offer opportunities for participants to take position freely on the market activities. Thus, the theory is concerned with the psychology of

investors who must act rationally but not necessarily in the way the institution assume. Various legislation that relate to financial businesses in the country are directed towards operation and mechanisms of finance house operation only, whereas the most affected people in time of crisis are the suppliers of funds.

DATA ANALYSIS AND FINDINGS

Data were collected from randomly selected subscribers to the seven identified Ponzi schemes in the six states of South West Geo - political zone of Nigeria. Six Thousand questionnaires were distributed, one thousand in each of the six states and Three thousand and forty were retrieved (50.67) for analysis on the effect of Ponzi schemes on subscribers' from Jan. 2015 to December, 2018. Also, exploratory findings were made on the six identified Ponzi schemes in the zone to explain the extents of damages caused in the economy. Though sufficient literatures were not available as at the time of carrying out this study but the aim of checkmating unpalatable businesses in an economy is achievable especially to the regulatory bodies, law enforcement agencies and the masses in the economy.

Population Distribution

Subscribers to Ponzi Schemes in South –West Geo- political Zone of Nigeria (2015-2018)

South-west states	DISTRIBUTED Questionnaire	GENDER		RETRIEVED	PERCENTAGE (%) Retrieved
		Male	Female		
Lagos	1000	60	680	720	23.68
Ogun	1000	32	340	372	12.24
Oyo	100047	116	400	516	16.97
Osun	1000	180	312	492	16.18
Ondo	1000	164	326	490	16.12
Ekiti	1000	47	403	450	14.80
Total	6000	599	2441	3040	100

Source: Study Survey, 2019

Categorization Based on the Stage at which each subscribers subscribes to Ponzi Schemes

Stage of subscription	No of Respondents	Percentage (%)
Early subscribers	296	9.74
Later subscribers	2744	90.26
Total	3040	100

Source: Study Survey 2019

PONZI SCHEME EFFECTS ON SUBSCRIBERS

Out of three thousand and forty retrieved questionnaires, only Two Hundred and ninety six (9.74) respondents fall into the categories of earlier subscribers while two thousand seven hundred and forty four (90.26) were in the later categories

Beneficiary of the Promised 30% Return on Investment

30% Return Promised	Respondents	Percentage (%)
ES	296	9.74
LS	2744	90.26
Total	3040	100

Source: Author's computation, 2019

The benefits of 30% Return on Investment (ROI) promised by the scheme floaters on amount subscribed were only derived by the earlier subscribers (9.74) while (90.26) were in the bracket that lose their money when the scheme eventually collapse

The Statistical Package for Social sciences was used to determine the effect of Ponzi scheme on early subscribers, later subscribers, government regulations and general effect of the schemes on subscribers in six state of south-west geo-political zone of Nigeria during 2015 - 2018

State	ES	LS	GP	GES
Lagos	1.8	0.5	0.5	0.2
Ogun	1.1	0.25	0.1	0.81
Oyo	1.2	0.20	0.25	2.9
Osun	1.0	0.22	0.42	4.2
Ondo	0.5	10.24	0.5	0.5
Ekiti	0.7	0.1	10.3	2,1

Regression Statistics

Multiple R 0.765642
 R Square 0.586207
 Standard Error 0.415227
 Observations 10

ANOVA

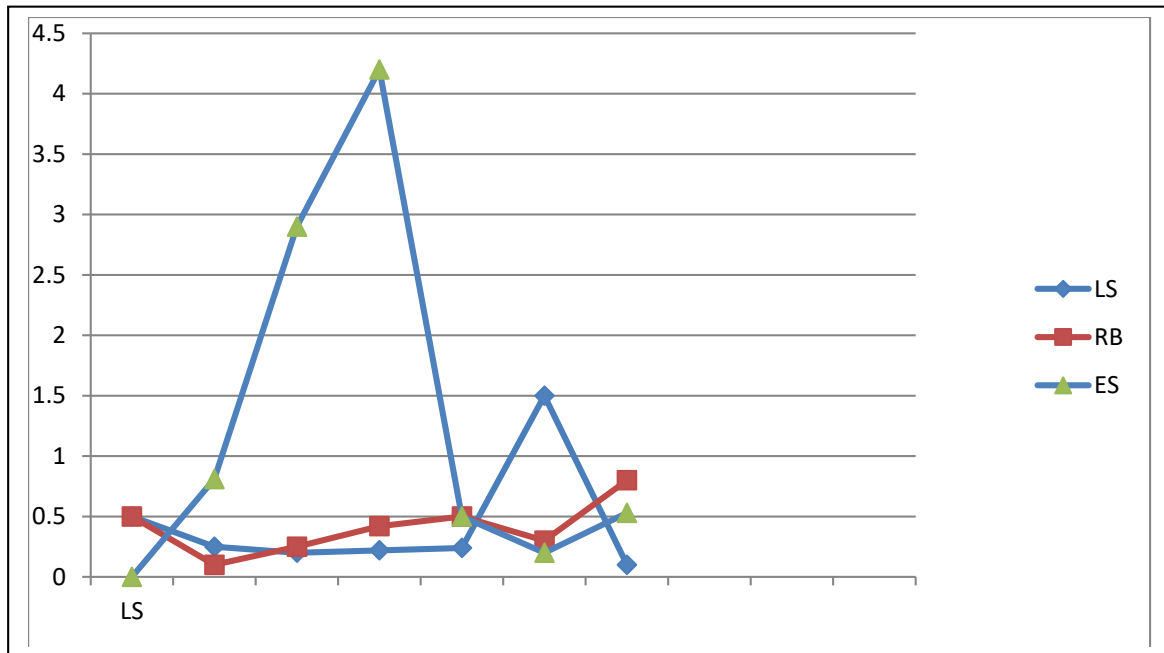
<i>SV</i>	<i>Df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	3	1.465517	0.488506	2.833334	0.128502
Residual	6	1.034483	0.172414		
Total	9	2.5			

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>
Intercept	0.808843	0.269298	3.003518	0.023899	0.149893	1.467793
ES	0.078913	0.035195	2.242137	0.066152	-0.00721	0.165033
LS	-0.30015	0.104593	-2.86967	0.028439	-0.55608	-0.04422
GP	-0.68204	0.467971	-1.45744	0.195261	-1.82713	0.463043

The relationship between early subscribers, later subscribers Government policy and the general effects of the scheme on subscribers:

$$GES = 0.8088 + 0.0789 ES - 0.3002LS - 0.6820GP$$

Figure 1: (The relationship between Returns benefited by Early Subscribers (ES), Later Subscribers (LS) and impacts of Financial Regulating bodies in Nigeria (RB)).



Source: Study Survey, 2019

The green lines depicts the rate at which the first group of subscribers benefitted outrageously at the period when the schemes were first introduced and which invariably enticed the new subscribers to take decision of subscribing into the schemes and which eventually led to a great loss as it is depict by blue lines while the red lines represented the roles of regulatory authorities on Ponzi schemes.

The regulatory policy showed a passive trend along the trend of the operation of the scheme but with no effect on the operation of the schemes in any wises. The relationship between the three variables showed that in the operation of the scheme, there must be a form of interventions of rules and regulation by the financial regulatory bodies in the economy so as to safe guide the link between early subscribed benefits at the start or in the long run to the later subscribers to have similar access to benefit derivable from the schemes if the whole operation plans is genuine ab initio..

Ponzi scheme starts operation to the first sixth month of operation. From period 1-5 the earnings from the scheme move up consistently to a slightly above seventy percent (70%) while the line in red represent the experience of later subscribers which are called the deceived group of subscribers

in Ponzi schemes. The green line represent the passive roles of financial regulatory authorities on Ponzi schemes which become popular when the schemes collapse and subscribers wealth were swindled..

Conclusion and Recommendations

The collapse of Ponzi schemes is predicated on the fact that there is no bearing of asset and corresponding returns which is a typical model any business venture be it private or public company should portray. **The** current recession in Nigeria economy indirectly promoted the schemes as many subscribed /invested in a bid to lessen their financial burdens. Others who were motivated by greed also waded in to enjoy high returns promised by the scheme probably because the earlier subscribers reap the inducing benefits from the schemes. When these schemes began to fail in their ability to pay up promised returns, a serious pandemonium were recorded which led many people who had invested lots of money to became paranoid while the promoters of these schemes in vanished into thin air. Thus the study concluded that the operations of Ponzi schemes of any nature is out there to defraud the subscribers and as such should be check by law of the land through the financial regulatory bodies in the economy.

The promise of a 30 % ROI is outrageous and not in terms with standard rates of investment (Example one makes a profit of 30,000 naira for every 100,000 naira invested in the system in 30 days , excluding additions that comes from referral, signing up and testimonial bonuses) No legal financial company can offer you that investment plan. Such “Return on Investments” been paid to older clients are money received from new clients and the circle continues, the 30% is never made from company profits. That is why there is aggressive ad campaign from the company (MMM Nigeria) paying massive additional bonuses to recruiters that they call guiders to conduct seminars and deceive gullible Nigerians into joining the scheme to keep the system alive.

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APPENDIX

(Specimen of questions on the circulated questionnaire)

Subscribers Experience with Ponzi Schemes (Kindly tick the option that satisfy your answer. 5 = SA, 4 = A, 3 = D, 2 = SD, 1 = U

S/No	Effects of Subscribing to the Scheme	5	4	3	2	1
1	You subscribed to Ponzi Scheme operating in Nigeria between 2015-2018					
2	All subscribers were enticed by rosy gain promised by the scheme					
3	I am one of the earlier subscriber to the scheme					
4	I received the promised 30% interest from the scheme					
5	I am one of the later subscribers to the scheme					
6	I received the promised interest of 30% promised by the scheme					
7	I experienced a great loss from subscribing to the scheme					

Source: Authors Computations, 2019

Financial rules and Regulations guiding Operations of Ponzi Schemes.

S/No	Ponzi Schemes’ Operations and Checks on the Operators/Anchoring Financial Institutions in Nigeria	5	4	3	2	1
1	Ponzi Schemes were duly registered with the appropriate authorities before commencement of operation					
2	MOF, CBN and other financial regulatory authorities know about the schemes					

3	Ponzi schemes were perpetrated through influential persons in Nigeria						
4	Such schemes operations were ment to be beneficial to the economy						
5	No financial rules go against the activities of the scheme						
6	Future re surfacing of the scheme is prohibited by Government policy						
7	Subscribers are warned by regulating authorities not to patronize the scheme						
8	Government should make a clear-cut decision to stop the scheme generally						

Authors Computations, 2019

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