

PONZI SCHEMES AND FINANCIAL RISK-TAKING IN NIGERIA: A BEHAVIORAL AND DEMOGRAPHIC ANALYSIS**John Okey Onoh**

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Abstract

The study is on the ponzi schemes in Nigeria using social demographics to determine attitude to risks and the role of **GREED** and **FEAR** as the invisible hands that influence the market for ponzi schemes. The problem of study is that despite the warnings by the Nigerian monetary authorities to members of the public many Nigerians of all ages, professions and even students invested huge but unsecured sums of money in the hope of getting unusually high returns on their investments over a short period. The objectives were to investigate the demographic background and find out if these diverse backgrounds had much impact on human investment behavior, to find out if the investor's professional exposure and income had much impact on human investment behavior and if the extent of returns on investments by the investors (profit or loss) will influence their decision to participate in Ponzi schemes tomorrow. The literature review deals with past work in related areas. The research methodology used were questionnaires designed in appropriately to infer if the three hypotheses held or not. The questionnaire was structured into three parts, the role of the respondent's cultural/religious background, educational/career exposure and his losses or profit on his decision to take the risk in investing money in non-transparent schemes such as this. The findings indicate that a larger portion of the respondents lost money. Majority of the respondents most of whom participated in the different ponzi schemes have the benefit of higher education and were mostly southerners. They were largely unperturbed by religious or cultural tenets regarding gambling and their investment decisions was not guided by rational fundamental economic considerations but by human emotions such as FEAR and GREED. It is recommended that in addition to legislative enactments to protect macroeconomic policy it is vital that people should be weary of unsolicited offers as well as investigate the offers by seeking professional advice on how to deal with such mouthwatering promises or risk losing their investments.

Keywords: Ponzi Schemes, Nigeria, Demographics, Risk, Greed, Fear and Market

1.0 Introduction

Ponzi is defined as a an investment scheme that is fraudulent in nature where the operator pays returns to the investors of the scheme from fresh capital by subsequent investors in contrast to returns of legitimate businesses earned from profits from clearly defined operations. The name Ponzi was derived from Charles Ponzi an Italian resident in the United States who in the 1920s also managed a money making scheme with returns that were unusually high. Not unlike the modern day ponzi schemes Charles Ponzi was paying early investors using the

investments of later investors (re-cycled capital). His scheme cost investors 20 million dollars after one year of operations. By offering short-term returns that are either abnormally high or unusually consistent. Ponzi schemes start off as legitimate businesses but as time goes on they cannot sustain the investors' expectations on the returns. This is because the continuous actualization of high returns is a function of increasing flow of funds from subsequent investors to sustain the scheme. The increase is necessary because the return over a short period surpasses the prevailing market rate for the period it takes to pay the returns. And just like Charles Ponzi many initiators of these schemes divert investor's money to make payments to earlier investors and themselves. The investors who joined much later are left with the short end of the stick just as some earlier investors who took long positions in the scheme in the hope of larger returns. Ponzi schemes in modern times are also called '*pyramid schemes*'. They are called thus because the pyramid structure of the scheme is '*bottom-heavy*'. There are two emotions that rule the market and that is GREED and FEAR. As the base of the pyramid grows earlier investors who are more averse to risks start to divest their interests causing shortage of funds in comparison to maturing obligations of even higher returns. Consequently, from prompt and accurate payment of expected returns to the investors, payments become less regular or partly paid at best. This creates more panic as investors and intending investors hold back on their money. The initiators of the scheme unlike the individual participants who also have privileged information from the market point would consolidate their already secured positions by halting further payments and moving their operations overseas with the money they acquired leaving many investors in financial ruin.

1.2 Statement of problem

Given the challenges posed by high unemployment in a country with a low income per capita and with more than sixty percent of Nigerians within employment age and of course the materialism enshrined in the value system over the last three decades especially has compounded the problem of applying rational principles to making risky finance decisions. Since the year 2015 many ponzi schemes came into the Nigerian market and with the help of modern technology the coordinators of these schemes gained access to the Nigerian market. Despite the warnings by the Nigerian monetary authorities to members of the public many Nigerians of all ages, professions and even students invested huge but unsecured sums of money in the hope of getting unusually high returns on their investments over a short period. The level of participation was so much that it distorted the usual money supply pattern and even reduced the markets for main stream betting houses. There have not been many reasons offered by academic research for the causes for these risky human behaviors, most similar work centered on the effects to savings, consumption and investment. It is hoped this study would be investigating the background of these behavior. Unlike the mainstream betting houses (i.e.) Naijabet and Nairabet these pyramid scheme coordinators

were not registered and hence cannot sue or be sued, they had no offices, no known board of directors, no verifiable physical addresses, no known tax records nor business registration in the country of their operations to be paying such high returns in so short a time. The risk was too obvious but the level of confidence was high especially in the first few months of the introduction of these schemes.

1.3 Research objectives

1. To investigate the demographic background and find out if these diverse backgrounds had much impact on human investment behavior
2. To find out if the investor's professional exposure and income had much impact on human investment behavior
3. To find out the extent of returns on investments by the investors (profit or loss)

1.4 Research hypotheses

H0₁: That demographic differences among respondents was not significant in shaping their attitude to risk

H0₂: That educational qualifications and career exposure of respondents was not significant in their shaping their willingness to take risk

H0₃: That market fundamentals were not significant in the investment decisions by ponzi participants that resulted in the profit/loss outcome

2.0 Literature review

According to Tsang Jo-Ann (2002) in his study of immoral behavior he stated two conditions where the management theory of rationalization occurs.

- An action is taken for a certain reason or even no reason at all.
- A logical construction is attempted to justify the action taken after the fact

Many Investors behavior are irrational because they are blind to the effect of their emotions on investment decisions. They choose to ignore or disregard the objective assessment of market fundamentals. John Banja (2004) states that the medical field features a disproportionate amount of rationalization invoked in the "covering up" of mistakes.

Asogwa et al (2017) succinctly captured the state of Nigeria's socio-economic anomaly in his synopsis and Nigeria's economic growth. He recalled that Nigeria was ranked as one of the top three investment destinations in 2015 only to slide into recession in 2016. Coupled with the drop in oil revenue, the uncertainty created by government economic policies caused enormous flight of capital, a rise in unemployment, high inflation and a depreciation of the local currency. This brought untold hardship and output dropped to lower levels than policy watchers had hoped for. The government's attempt to regulate the foreign exchange through heavy bureaucracy

further caused scarcity of dollars and the naira continued to plummet. The delay in the national budget process further heightened the fiscal uncertainty felt in many quarters. By the first quarter of 2016 the stage was now set for ponzi schemes to thrive at the expense of gullible and desperate Nigerians.

Asogwa et al (2017) went further to say that the modus operandi of the organizers of the Ponzi scheme remain the same. They start by convincing people to commit money to the scheme for a mouth-watering returns. When the investors get the high returns they put more money to generate even larger returns and convince others to follow suit citing their own experience in good fortune. At this point **GREED** dominates **FEAR** in the ponzi market the way **BULLS** dominate **BEARS** when the stock market is doing well. At this point, any iota of rationality left in ponzi participants is put aside on the altar of constant yet unexplained prosperity, indeed prosperity made easy. As time approaches the organizers of the scheme who happen to monitor the entire state of affairs involved in the contribution and redistribution would most certainly be able to identify when fear enters the market. Before this stage, the participants would experience delays in payment and sometimes will be paid less than originally expected. The reasons for this change of guard are not far-fetched. The pressure is as a result of the initial first symptoms of an impending crash resulting from fewer contributions and more accruals. Of course the organizers who are always the first to notice this secure their investments first and subsequently commence damage control.

Close watchers of the scheme notice that at the time of dwindling returns, the internet portals used by participants starts to experience login difficulties such as delays and outright closure. When this happens some participants automatically are made to lose benefits for not fulfilling obligations as a result of portal difficulties through no fault of theirs. Nonetheless, some diehard participants continued to invest their money until one by one the schemes started to fall like a pack of cards in the last quarter of 2016 and first quarter of 2017 leaving millions of Nigerians with short end of the stick having lost an estimated 18 billion naira.

Deason et al (2015) opines that building effective mechanisms to deter Ponzi schemes requires that we understand how Ponzi schemes identify their victims, secure their trust, and convince them to invest large amounts in the fraud.

Unfortunately, our knowledge of Ponzi schemes is based largely on anecdotes provided by a few sensational cases like Madoff.

Zuckoff (2006) encourages the provisioning of evidence on the 'who' and 'how' of Ponzi schemes using a broader sample of such frauds. A pure Ponzi scheme is an investment fund where the fund originator never makes a legitimate investment in assets that produce income.¹ Thus, 'dividends' are paid to existing investors out of the capital contributions of new investors. The survival of a Ponzi scheme depends on the schemer's

ability to attract new investors who make sufficiently large contributions to sustain high payouts to existing investors. These payouts then can serve as a vehicle to market the fraudulent scheme as a desirable investment. The main constraint faced by a would-be Ponzi scheme is that a legal authority like the SEC must remain unaware of the scheme while investors are deceived as to the schemer's true intentions.

A Ponzi scheme is a criminal entrepreneur who seeks to gain the trust of his victims through deception. The trust of victims is based on a false belief that income is being earned as a result of investment in legitimate assets that actually exist. This false belief is typically sustained through a combination of large and/or stable returns to investors and information manipulation by the schemer. We expect that a Ponzi schemes *ex post* success (as measured by its size, duration, and amounts taken by the schemer) will be positively associated with whether the perpetrator and his victim share an affinity link through religion or ethnicity, or whether the victim is a person like a senior citizen who might more prone to believing a schemer's 'tall tales.' Successful Ponzi schemes will build social connections with their victims using marketing techniques that can entice victims while also concealing the scheme from legal authorities.

Ponzi schemes have long existed; such frauds were referred to as 'Rob Peter to Pay Paul' schemes before Charles Ponzi's fraud according to Zuckoff (2006). Our sample includes 376 SEC-prosecuted Ponzi schemes during the period 1988-2012. These cases represent material frauds, the mean total funds invested in our sample Ponzi schemes is \$208 million, the average Ponzi scheme in our sample lasts about 4.25 years, and the average Ponzi perpetrator takes about 29% of the funds raised as personal compensation. Our analysis also suggests the following about Ponzi schemes:

1. **Size.** Most Ponzi schemes are small in relation to widely known schemes such as those of Bernard Madoff and Allen Stanford, both of which totaled in the billions. In contrast, the median size of schemes in our sample is \$14.7 million total invested and the first quartile was just over \$5 million. The median number of investors in our sample schemes is 150, and investors in our sample Ponzi schemes are investing \$431,200 (\$87,800) at the mean (median). On all measures of size, the distribution is heavily right-skewed, which suggests that a small number of very large cases affect the distribution.
2. **Perpetrators and victims.** Males acting as solo operators perpetrate most of the Ponzi schemes in our sample. The most frequent type of victim mentioned by the SEC is the elderly. The most frequent type of affinity link cited by the SEC is family and friends with a common religion coming in a close second.
3. **Marketing.** Surprisingly, many Ponzi schemes are marketed in visible ways - e.g., through a website or mass media like newspapers. Ponzi schemers also frequently provide incentive payments (e.g., commissions) to third parties to obtain victims. The returns promised by Ponzi schemes to their victims are sizable. It is typical for

these promises to be communicated as a range. The mean (median) of the minimum annual return promised was 111% (12%), and the mean (median) of the maximum annual return promised was 437% (24.5%).

4. Victim trust. Patterns in the location, duration, size, and amounts stolen in Ponzi schemes suggest that building false trust is a major focus of a Ponzi scheme. Ponzi schemes are significantly more frequent in U. S. states where citizens are known to place greater trust in strangers. Perhaps for the same reason, Ponzi schemes where an affinity link is present or the SEC cites the elderly as prominent in the victim class tend to last longer. Perhaps because social distance makes it harder to build trust, schemes marketed using mass media also have significantly shorter duration. The use of commissioned recruiters and referral rewards to identify victims is the most important variable in explaining the amount of funds raised in a Ponzi scheme.

5. Alternate investment opportunities. Both institutional and individual investors prefer to invest locally. We find that more Ponzi schemes emerge in states with fewer conventional, local investment opportunities. When few local companies are publically traded, and when local governments have little debt (few local government bonds available), investors examine alternate investment strategies, which likely leads to more Ponzi schemes. Some caveats about the limitations of our data are warranted at the outset. The evidence we provide is based on information in SEC court filings and press releases. As such, we are examining variables that are measured with error due to incomplete or imperfect information. For example, the total funds invested in a given Ponzi scheme may be unknowable because some victims do not want to come forward for various reasons. Second, the information may be incomplete or even biased if SEC officials' strategic incentives influence what information they seek out and present to the courts and public.

3.0 Methodology of study

The research methodology was exploratory and based on questionnaires distributed online throughout the six geo-political zones to 250 respondents of which only 230 duly completed and submitted the questionnaires assigned to them. Using a percentage method the data is analyzed to reveal the possible motives for some actions taken on the average. The questionnaire was designed to capture six possible options for each of the fifteen questions asked. Also, the questionnaire was designed into three sections such that each section addresses each of the three hypotheses stated thus:

Restatement of Hypotheses

H0₁: That demographic differences among respondents was not significant in shaping their attitude to risk

H0₂: That educational qualifications and career exposure of respondents was not significant in their shaping their willingness to take risk

Research Article

H0₃: That market fundamentals were not significant in the investment decisions by ponzi participants that resulted in the profit/loss outcome

The percentage method involves using each subtotal for each of the six options in a question responded to as a percentage of the total respondents for the question. The responses for each question per section of the questionnaire would be aggregated to arrive at a decision for each hypothesis.

The basis for accepting or rejecting any of the stated hypotheses is by a simple plurality of the aggregate responses (51%).

4.0 Analysis of data and Discussion of findings

Q1 which age category do you fall into?

< 20 years	20 - 29 years	30-39 years	40-49 years	50-59 years	60-70 years	Total
19	87	54	45	18	7	230
						100.00
8.26%	37.83%	23.48%	19.57%	7.83%	3.04%	%

Q Which of the six geo-political regions do you reside? in

North Central	North East	North West	South East	South West	South South	Total
33	6	5	60	73	53	230
						100.00
14.35%	2.61%	2.17%	26.09%	31.74%	23.04%	%

Q3 Which religious beliefs do you practice?

Catholic	Orthodox Protestant	Pentecostal	Islam	Traditional	Others	Total
67	70	78	12	1	2	230
						100.00
29.13%	30.43%	33.91%	5.22%	0.00%	0.01%	%

Does your religion permit/abhor gambling and how has this influenced

Research Article

Q4 you?

Zero tolerance/Religious obedience	Zero tolerance/abstain by choice	Zero tolerance/gamble by choice	Indifferent religious posture/abstain by choice	Indifferent religious posture/chose to gamble	Indifferent religious posture/indifferent to gamble	Total
5	3	45	7	97	63	230

100.00	6.52%	1.30%	19.57%	3.04%	42.17%	27.39%	%
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Q5 Which is your highest educational qualification?

First School Leaving Certificate	O' Levels	Ordinary National Diploma (OND)	Higher National Diploma (HND)	Bachelor's degree (B.Sc, B.A, B.Ed etc)	Post-Graduate Degree (PGD, Masters, Ph.D, D.Sc)	Total
0	13	56	43	84	34	230

100.00
0.00% 5.65% 24.35% 18.70% 36.52% 14.78% %

Q6 Which vocation or profession do you belong to?

Student	N.Y.S.C	Civil Servant	Business man/woman	Private sector employee	Unemployed	Total
87	13	21	34	45	30	230

Research Article

100.00

37.83%

5.65%

9.13%

14.78%

19.57%

13.04%

%

Q7

Which monthly income category do you belong to?

No Income	Below N50,000	N50,000 to N100,000	Above N100,000 to N250,000	N250,000 to N1,000,000	Above N1,000,000	Total
68	27	78	45	11	1	230

100.00

29.57%

11.74%

33.91%

19.57%

4.78%

0.43%

%

Q8

How many dependents do you have?

No dependent	1-3 dependents	4-5 dependents	6-7 dependents	8-9 dependents	10 or more dependents	Total
90	76	32	19	8	5	230

100.00

38.92%

32.02%

15.76%

6.90%

3.94%

2.46%

%

Q9

Are you indebted to any individual or institution and to what extent?

Zero debt	Below N100,000	N100,000 to N250,000	N250,000 to N500,000	Above N500,000 to N1,000,000	Above N1,000,000	Total
9	102	69	38	8	4	230

100.0

3.91%

44.35%

30.00%

16.52%

3.48%

1.74%

0%

Q10

Which of these ponzi schemes have you invested money in?

Research Article

None	MMM	Get Help World Wide	Givers Forum	Others not mentione d	More than one ponzi scheme	Total
44	76	32	23	4	51	230

100.00

19.13% 33.04% 13.91% 10.00% 1.74% 22.17% %

Q11 Did you make profits or losses as a participant and to what extent?

Did participate	Profit not N200,000 and below	Profit above of N200,000 but less than N1,000,000	Profit above N1,000,000	Loss from N1,000,000 and below	Loss above N1,000,000	Total
50	13	8	3	145	11	230

100.00

21.74% 5.65% 3.48% 1.30% 63.04% 4.78% %

Q12 What do you think were reasons for the collapse of ponzi scheme?

Panic Withdrawals	Sabotage by the Nigerian authorities	Excessive referral bonuses given guiders to	Liquidity problems occasional by christmas	Uncertainty created by network related problems at the portals	All of the above	Total
50	13	8	3	145	11	230

100.00

21.74% 5.65% 3.48% 1.30% 63.04% 4.78% % how did you
think ponzi schemes made high returns at the time you?

Q13 joined the scheme?

Research Article

Re-cycling contributions and redistributing	Investing securities in	Fixing deposits in the bank to yield interest	Investing in foreign assets	Land purchase for resale	No idea	Total
78	11	0	3	1	137	230

100.00

33.91% 4.78% 0.00% 1.30% 0.43% 59.57% %

How did you think ponzi schemes made high returns after the schemes?
collapse?

Q14

Re-cycling contributions and redistributing	Investing securities in	Fixing deposits in the bank to yield interest	Investing in foreign assets	Land purchase for resale	No idea	Total
121	2	0	7	0	100	230

100.00

52.61% 0.87% 0.00% 3.04% 0.00% 43.48% %

Given another chance how much would you contribute to a ponzi scheme?

Q15 in future?

No amount	Below N100,000	N100,000 to N500,000	Above N500,000 to N1,000,000	N1,000,000 to N5,000,000	Above N5,000,000	Total
167	49	14	0	0	0	230

100.00

72.61% 21.30% 6.09% 0.00% 0.00% 0.00% %

4.0.1 Discussions of Findings

Hypothesis one is addressed from the conclusions drawn from questions 1, 2, 3 and 4. The first four questions were looking at the cultural and religious of the respondents. Hypothesis two was addressed by questions 5, 6, 7 and 8. The questions addressed the academic qualifications and income earning capacity of the respondents. The

new month third conjecture was looking at the attitude of the respondents to take risks and also the outcome of their involvement or otherwise of investing their money in ponzi schemes. It was seen on table 1 that the combined age brackets of those from twenty years to forty nine years consisted about 81% of the total respondents. This age bracket is the most active of all the age brackets, this is thought to be as a result of that bracket being the most physically active of all other age brackets. Most of the respondents (see table 2) resided in the southern part of the country with a combined percentage of 81% the southern responses dwarfed those from the north (19.13%) by 4:1 with the South – West geopolitical zone being the highest at 31.74% and the north east being the least with 2.61%. The religious inclination of respondents according to table 3 was tilted in favor of the three major Christian branches with a combined total percentage of 93.48%, Muslim respondents were 5.22%, Traditionalists at 0.004% and others at 0.008%. This is not surprising since majority of Christians reside in the South and Middle Belt regions that had high percentages.

On the issue of the posture of religion to gambling and how the adherent or risk-averse participant to gambling regards the religious instructions to this, it was clear that a greater part of the respondents (72.61%) were indifferent to whatever posture adopted by their religious authorities (see table 4). Only a small percentage of the respondents with a combined total (27.39%) belonged to faiths with zero tolerance and majority of those in this faith claims that their decision to partake or abstain from ponzi business was personal to them and not because of any religious obligation.

On whether educational attainment controls risky behavior (see table 5) the analysis revealed that a greater percentage of the respondents were bachelor's degree holders and diploma holders with a combined percentage of 79.57% as against those with O'levels (5.65%) and Post-Graduate degree holders (14.78%). This is consistent with the results in table 1 where the age bracket with the highest response was those between twenty years and fifty years which form the nucleus of the working population. This also implies that possessing higher education does not insulate one from behaving irrationally when he is inspired by greed.

Table 6 indicated that students were the highest respondents with 37.83% while NYSC respondents and civil servants had the least respondents at 6.65% and 9.13% respectively. On table 7, it was seen that those below the income bracket of ₦100, 000.00 consisted of 75% of the respondents and subsequently took more risks with their meager earnings than those in the higher income brackets. In table 8, those respondents with three or less dependents (including zero dependents) consisted of 72.17% of the total respondents another indicator suggesting a high degree of consistency with the analysis on age bracket, educational qualification, income category and vocation.

Only a negligible percentage of respondents (3.91%) had no debts outstanding but the remaining 96.09% of respondents had debts of various sizes (see table 9). This points to a high sense of dependency of borrowed funds by the ponzi scheme participants. It is obvious that MMM ponzi scheme was the undisputed market leader with 33.04% of respondents dedicated to it, well ahead of the rest (see table 10). On table 11, of all the 230 respondents only 50 of them (or 21.74%) did not participate as against 180 (78.26%) who participated. Out of the total of 230, 67.83% lost money as against 21.74% who did not participate and 9.13% who participated and won. On hindsight, this clearly showed that critics of the scheme were vindicated.

On reasons for the collapse of the ponzi scheme (see table 12) a whopping 63.04% of respondents strongly believed that uncertainty created by network related problems raising integrity issued caused the scheme's collapse. This subsequently caused panic withdrawals which caused many of the ponzi schemes to stop operations even if temporarily. Again at the point of entry into the scheme, 59.57% of the respondents had no idea of how the unusually high returns are made in such a short space of time (see table 13). By the time the scheme crashed that figure reduces to 43.48% which is still significant (see table 14). It paints a picture of too much optimism on the part of participants in the scheme. It also begs the question which have dumbfounded rationalist thinkers as to their position that majority of people are rational investors.

Lastly, it was found out that 72.61% of the respondents did not believe they can ever commit their funds if such a scenario was to start again. This demonstrates the shattered dreams and the level of helplessness felt by many who lost billions of naira in this risky but avoidable affair.

4.0.2 Decision Rule

The study accepts the first hypothesis which states that demographic differences among respondents was not significant in shaping their attitude to risk. As one can see from the demographics, despite the level of religious, cultural and age diversity it is apparent that majority of the respondents regardless of their cultural and religious inclination were involved in the ponzi scheme and are risk takers.

The study accepts the second hypothesis which states that educational qualifications and career exposure of respondents was not significant in the shaping of their willingness to take risk. It is because a greater part of graduates were involved in the scheme without asking very fundamental questions.

The study accepts the conjecture that market fundamentals was not significant in the investment decisions by ponzi participants that resulted in the profit/loss outcome because the ponzi schemes were not registered and had no known board of directors nor verifiable address. They were not trading in physical goods and services or securities and the participants had no access to the entire organization's accounts like any shareholder would at an annual general meeting.

5.0 Conclusions

From the findings of the study it is apparent that transparency of the ponzi schemes was not clear to all. In all other legitimate businesses shareholders and debt instrument holders have access not just to their individual account positions with the company they own or that owes them but to the entire accounts of the company. In the case of the ponzi participants they have access to their own accounts and not that of the entire company so they have no clue as to how the entire funds are used or if it is misapplied against their interest. Even the access they have to their accounts can only be got through a portal to which they have no control over.

It is clear that the fundamentals of markets like **demand** and **supply** of goods and services were not the main drivers of the ponzi market but **FEAR** and **GREED**. In the course of the study, it was clear that religious or cultural considerations did not restrain many people from plunging into a risky pit. A good number of these respondents were not only of working age but were unemployed, underemployed or dependent students. However, this did not stop them from borrowing money in addition to their meager savings to invest in a very risky and non-transparent business with no trace of at least a resident office address, identifiable board of directors nor business registration in the country of its operations. There was no binding or enforceable contract between the organizers of the ponzi schemes or guarantee as to any form of compensation or refund. People merely relied on the promises of high returns in as short as a few days, the percentage of which the banks or any other form of legitimate commerce could not give in a year.

The question many watchers asked and many ponzi participants wondered of which many in the latter's category didn't wait for an answer before committing their funds was 'How **is this magic of high returns achieved in so short a time**'? Even though some ponzi participants gained more money than they contributed, the gain was pale in comparison to a greater percentage of money lost by many respondents. Again many did not know the reasons for the abnormal high returns and hardly showed any skepticism as to its continued sustainability over a long period.

Some of the respondents on interview, echoed sentiments expressed by others in the past regarding the comparison between ponzi schemes and the sports gambling companies like NaijaBet, NairaBet etc. They argue that the Nigerian monetary authority (CBN) is unfairly targeting the ponzi schemes because they seem to make higher returns than the conventional banks. They also wondered why the other gambling organizations were not listed as dangerous to the economy. The noticeable differences between Ponzi schemes and the mainstream gambling agencies include the following;

- The mainstream gambling houses are registered, have a verifiable address, a board of directors that run firms that can sue and be sued. The Ponzi schemes do not have all these.

- The mainstream gambling houses employ people, create wealth, pay taxes, rent and municipal levies but the Ponzi schemes do not.
- The mainstream gambling houses have transparent records as required by law to obtain or renew their license to operate. The Ponzi schemes do not have transparency and are not recognized by regulation.
- The mainstream gambling houses pay coupon winnings and meet general overheads from the monies committed by the betting public and the winnings paid per coupon is a function of the money pooled per week of business. The Ponzi schemes who promise unusual high returns are constrained by the possibility of liquidity pressure by participants who demand more than they are reinvesting as events unfold.

This is where the management theory of Rationalization becomes apparent and the economic school of rational behaviour is called to question. The supporters of the scheme (many of whom lost money eventually) believed that the government played a role in the negative publicity that they believe brought many of these ponzi schemes crashing down. Many do not believe that the crash of these schemes was as a result of economic fundamentals of demand and supply for money by those involved in the ponzi schemes.

6.0 Recommendations

It is strongly recommended that future or potential participants should look through the history of similar schemes in the past and across the globe to understand that **‘all that glitters isn’t gold’**. Most of these participants are ignorant of the processes involved in a scheme with no fundamentals in production of goods and services or buying and selling of securities. People should ask questions, know the identities of who is behind such opaque organizations and be wary of unsolicited offers. Every investment carries some degree of risk, which is reflected in the rate of return you can expect to receive. If your money is perfectly safe, investors are most likely to get a low return. High returns for investors entail high risks, possibly a total loss on the investments in the bargain. Most fraudsters spend a lot of time trying to convince investors that extremely high returns are ‘guaranteed’ or ‘can’t miss.’ People should be wary of the image these fraudsters plant in the minds of their potential victims.

Again legislations should be enacted to ensure that the activities of these schemes do not jeopardize macroeconomic policy especially as regards money supply.

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