

## State Regulation and Prevalence of Ponzi Schemes in Nigeria

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### Abstract

In recent years, hundreds of thousands of Nigerians have fallen prey to various, devious antics of money-doubling platforms known as Ponzi schemes, resulting in the tragic loss of their hard-earned money and other valuable resources in the process. The proliferation and prevalence of these schemes in Nigeria have taken a worrisome dimension, as they continue to operate in the country with impunity and a seemingly high success rate. This begs the question as to whether government regulatory and enforcement agencies are incapable of effectively regulating the operation of these schemes. This paper argued that the state has steeply fallen short of its responsibility of combating Ponzi schemes in Nigeria, thereby causing financial hardship to innocent Nigerians who fall prey to such schemes. The study is predicated on the Regulatory Failure Theory as its theoretical framework. The data collection instrument utilised for the study was the documentary method, which involved gathering data from books, journals, newspapers, legislation, and article publications among others. Data gathered was analysed using content analysis. Findings showed that the proliferation and prevalence of Ponzi schemes in Nigeria is due to the failure of the state to stop the activities of the Ponzi schemes. The study recommends among others, the strengthening of regulatory frameworks and enforcement mechanisms in Nigeria, which will engender enhanced regulatory efficiency.

**Key Words:** Financial crime, Law enforcement, Ponzi schemes, and State regulation.

### Introduction

In recent years, a large number of Nigerians have fallen victim to the deceptive tactics employed by money-doubling platforms commonly known as Ponzi schemes. Following

Nigeria's economic recession in 2016, officially declared by the Central Bank of Nigeria and the International Monetary Fund (IMF), the country witnessed a significant decline in economic activities. This decline was accompanied by increased hardships, unemployment, reduced productivity, and mounting inflationary pressures (Dan-Awoh, 2022). Consequently, many individuals in Nigeria began exploring alternative means of generating income, often enticed by schemes that initially appeared promising but carried the potential for disastrous consequences in the long run (Dan-Awoh, 2022). Since then, there has been a noticeable upsurge in the prevalence of Ponzi schemes, which are widely recognized as the oldest fraudulent schemes.

Ponzi schemes are a form of financial fraud that has been in existence for many years (Choice Reviews Online, 2013). They involve an individual, known as the orchestrator, who promises high and sustained investment returns to investors (Drew & Drew, 2012). The orchestrator typically raises money from new investors to pay returns to earlier investors, creating the illusion of profitability. This cycle continues as long as new investors are brought in but eventually collapses when there are not enough new investors to sustain the scheme (Choice Reviews Online, 2013).

Investopedia, an online financial platform, provides a comprehensive definition of a Ponzi scheme as a deceptive investment fraud that guarantees substantial returns while posing minimal risks to investors. This fraudulent scheme operates by utilising funds from new investors to generate profits for earlier investors, thus adopting a metaphorical 'robbing Peter to pay Paul' structure.

When the unorthodox financial system known as Mavrodi Mundial Movement (MMM), a Ponzi scheme initiated in 2011 by Russian politician and conman Sergius Mavrodi, was introduced in Nigeria, a significant number of Nigerians enthusiastically adopted it, perceiving it as the long-awaited solution to attain their desired financial independence. According to a report by The Independent, a reputable British newspaper, MMM rapidly expanded its presence in Africa, establishing branches in Nigeria, South Africa, Zimbabwe, and several East African countries. The scheme attracted potential investors with the promise

of a 30 percent monthly return on their investments. Surprisingly, within the first few months of its launch, an astonishing 2.4 million individuals eagerly registered to participate in the program (Ayeni, 2023).

The significant number of subscriptions to this financial system drew the interest of Nigeria's regulatory agencies in general and Nigeria's Economic and Financial Crimes Commission (EFCC) in particular, which confirmed that the scheme was under its surveillance (Punchonline, 2022). Yet, the EFCC failed to prevent the disaster, and innocent Nigerians were robbed of their hard-earned money.

Following the collapse of MMM in 2017, the Nigeria Electronic Fraud Forum reported a staggering loss of N11.9bn incurred by Nigerian citizens due to the scheme. Additionally, the Central Bank of Nigeria revealed that investors suffered a loss of N12bn. Similarly, the Nigerian Deposit Insurance Corporation further estimated that approximately three million Nigerians were affected by the scheme, resulting in a collective loss of about N18bn. Overall, a report by the Norrenberger Financial Investments Scheme estimated that as of 2022, Nigerians had lost over N300bn to Ponzi schemes in five years (Ayeni, 2023). Consequently, this unfortunate turn of events over the years has often led to a distressing rise in cases of suicide and attempted suicide among numerous citizens who had invested in deceitful schemes.

Against the backdrop of the flourishing illicit financial schemes, the Federal Government, in conjunction with the Securities and Exchange Commission (SEC) and the Central Bank of Nigeria (CBN), devised measures to curtail and suppress these practices. The Nigerian House of Representatives passed a bill in 2023, which aimed to repeal and re-enact the Nigerian Capital Market, Investments, and Securities Act. The proposed legislation included provisions to prohibit Ponzi schemes and other pyramid investments, among other objectives (punchng.com, 2023).

Notwithstanding, the seeming efforts of the Central Bank of Nigeria (CBN), the Securities and Exchange Commission (SEC) the EFCC, and other government regulatory agencies to combat Ponzi schemes and work with law enforcement to bring perpetrators to

justice, these fraudulent schemes continue to proliferate. In the aftermath of the notorious MMM crash in 2018, a plethora of online investment schemes emerged, including Loom, Twinkas, Donation Hub, Get Help Worldwide, Smile2Charity, Ultimate Cyclor, Givers Forum, I-Charity, Crowd Raising, Clarrita, and Help2Get. Others include MyBonus2u, RackSterli, Quintessential Investment Company, Inks Nation, and Wales Kingdom Capital Limited (Jack & Ibekwe, 2018). These schemes have capitalised on the desire of Nigerians for financial independence, and have absconded with the funds invested by unsuspecting citizens.

Despite all these, most writers on the prevalence of Ponzi schemes in Nigeria highlighted issues such as economic hardship (Jack & Ibekwe, 2018; Dan-Awoh, 2022), pressure to achieve financial goals (Ullah et al.; 2020; Ayeni, 2023); high level of unemployment and poverty (Uwaleke, 2022); poor performance on the capital markets and low returns on government security (Oparada, 2022) and ignorance or lack of adequate financial knowledge, (Adaramewa, 2023) and the advent of COVID 19 pandemic (Ibekwe, 2021).

While the efforts of these scholars in unravelling the dynamics, causes, and prevalence of Ponzi schemes in Nigeria is commendable, they appeared to have dwelt more on issues that are already known and appear to be rampant in the literature. Thus, it appears that scholars are yet to address the issue from the viewpoint that the proliferation and prevalence of Ponzi schemes in Nigeria is possibly a result of the failure of the state to effectively monitor and stop the activities of Ponzi scheme operators in the country, thereby leaving a lacuna in the literature. Thus, the point of departure of this study is to examine the prevalence of Ponzi schemes in Nigeria from the point of view that Ponzi schemes thrive possibly on account of perceived weakness and failure of the state to adequately checkmate the activities of these schemes.

## **Theoretical Framework**

This study is anchored on the Regulatory Failure Theory. The theory was propounded by George Stigler (1971), a Nobel laureate in economics, and further developed in recent times by Cremer et al., (2010); and Ariff et al., (2012). Other notable scholars of the theory include Milton Friedman, (1962) and Gordon Tullock, (1962). The regulatory failure theory examines

the circumstances and factors that contribute to the failure of regulatory agencies to effectively fulfil their mandates (Sperry, 2009; Levi-Faur, 2011). It focuses on the shortcomings and limitations of regulatory systems and the reasons behind their inability to prevent or address issues such as fraud, misconduct, or non-compliance.

The regulatory failure theory, therefore, is a theoretical concept that highlights the role of inadequate or ineffective regulatory systems in contributing to the occurrence and persistence of fraudulent activities such as Ponzi schemes. The theory suggests that regulatory failures and weaknesses in oversight and enforcement create an environment that allows fraudulent schemes to thrive.

The first assumption of the theory is that regulatory failure can and often lead to financial loss, harm to consumers or the public, erosion of trust in the regulatory system, and negative impacts on the economy and society as a whole (Noah et al., 2020). Also, regulatory failure has the potential to erode the legitimacy and credibility of regulatory agencies, thereby diminishing their long-term effectiveness (Ravinetto & Schiavett, 2015). Furthermore, weak or insufficient regulations can create loopholes and gaps that allow fraudulent schemes to operate. In other words, the lack of specific rules and guidelines for investment schemes can make it easier for fraudsters to take advantage of unsuspecting individuals (Inversi et al., 2017).

Lastly, the effectiveness of regulatory bodies can be undermined by poor enforcement, which can be attributed to various factors such as insufficient resources, corruption, and lack of capacity. These factors can impede the ability of regulatory bodies to monitor and take action against fraudulent activities. As a result, fraudulent schemes can continue to operate without fear of consequences due to inadequate enforcement (Choi & Sohn, 2013).

From the foregoing assumptions of the theory, it is apt and quite relevant to explaining the dynamics of weak government regulatory agencies and the prevalence of Ponzi schemes in Nigeria. For example, its basic assumption that regulatory failure often leads to financial losses

and harm to the consumer or public is indisputable, taking into consideration the results of Ponzi schemes in Nigeria. For instance, a report by the Norrenberger Financial Investments Scheme estimated that as of 2022, Nigerians had lost over N300bn to Ponzi schemes in five years (Ayeni, 2023). This led to a distressing rise in cases of suicide and attempted suicide among numerous citizens who invested in this deceitful scheme (Ayeni, 2023), resulting in negative impacts on society and the economy.

Furthermore, the assumption of the theory that weak or insufficient regulations can create loopholes and gaps that allow fraudulent schemes to thrive and operate provides it with powerful appeals and it is quite relevant to the discourse in this study. This is because between 2016 and till date, there appears to be an upsurge of various types of Ponzi schemes, operating on different platforms in Nigeria. These fraudulent schemes usually go undetected for a very long time due to the inability of the state to perform its watchdog function.

Finally, the Regulatory Failure Theory is relevant to this study to the extent that when there is a regulatory failure, the legitimacy and credibility of regulatory agencies tend to be eroded, thereby impairing their long-term effectiveness. As a result, individuals may lose trust in the agencies and often do not heed warnings from them to desist from investing in such platforms. Available data seems to suggest that the CBN and EFCC had in the past, made attempts to dissuade Nigerians from participating in such fraudulent schemes. Given the seemingly high success rate of Ponzi schemes in Nigeria, it can be said that such warnings were not adhered to possibly on account of distrust of the regulatory agencies by the citizens, due to regulatory failure.



## **The Concept of Ponzi Schemes**

A Ponzi scheme is an investment fraud in which clients are promised a large profit at little or no risk (Chen, 2023). In this investment scam, early investors are paid off with money put up by later investors in order to encourage more and bigger risks, and to create the false impression that investors are profiting from a legitimate business. According to Asogwa et. al, (2017), the exceptional financial gains from this fraudulent investment scheme are a direct outcome of a purposeful and dedicated search for new member admissions. Onoh and Eze (2018), viewed individuals who orchestrate Ponzi schemes as criminal entrepreneurs who rely on deception to win the trust of their victims. The U.S. Securities and Exchange Commission (SEC) (2019) opined that Ponzi schemes are investment frauds that involve payment of purported returns to existing investors from funds contributed by new investors. Quite frequently, the coordinators of the schemes entice prospective investors by assuring them of investing in ventures that are expected to bring in significant returns with minimal or no risk.

Ponzi schemes generally lack substantial, legitimate earnings and therefore depend on a constant influx of funds from new investors to maintain the investment. When there is a dearth of new investors, and a large number of earlier investors request pay-outs, the flow of funds is inevitably disrupted, resulting in the eventual collapse of the investment (Olayokun, 2016). With the promise of large returns as bait, the fraudster takes in money from new investors and uses it to pay off the earlier investors until no newer recruits can be found and the whole scheme collapses, with the newest investors losing everything.

## **Components of Ponzi Schemes**

As captured by Moffat (2018), the first component of the scheme is benefit which is a higher-than-average rate of return is assured for the investment, with the specific rate often being mentioned. The projected rate of return should be sufficiently attractive to the investor, yet not excessively unrealistic. While investment returns can vary with market conditions, Ponzi schemes persistently provide returns even during market downturns.

The next one is the setup which consists of an explanation that effectively supports the notion of generating above-average rates of return through investments. One frequently cited explanation revolves around the investor's expertise or possession of privileged information. Alternatively, it is plausible that the investor possesses exclusive access to investment opportunities unavailable to the wider public.

This is followed by initial credibility which is to gain the trust of early investors and convince them to invest their money, it is crucial for the individual responsible for the program to possess a high level of credibility. Additionally, credibility can be established by being associated or involved with well-respected individuals who possess notable credentials (Mitchell, 2022).

After that, initial investors get paid off. The investors must attain, at the very least, the rate of return that was promised to them, and ideally even more, over a specified period of time. This is substantiated by the fact that the funds contributed by new investors are utilised to remunerate earlier investors (Tsai, 2002; Mitchell, 2022).

Lastly, successes are efficiently communicated. Communicating the achievements to additional investors is of utmost importance to facilitate rapid growth. At the very minimum, the inflow of funds should exceed the amount returned to investors. Occasionally, there may be a depiction of profits derived from an alleged business endeavour, often associated with unregistered investments and/or advisors or firms.

Ponzi schemes are inherently unsustainable as they depend on a continuous influx of new participants to sustain the promised rewards. As the scheme grows, it becomes increasingly challenging to attract new members, ultimately resulting in its collapse.

### **Ponzi Schemes: A Brief History**

Throughout history, Ponzi schemes have been in existence for quite some time, dating back to the mid-1800s. However, it was in the early 1900s that these schemes gained significant attention, largely due to the notorious fraudster Charles Ponzi (March 3rd, 1882 - January 18th, 1949). Ponzi announced a business venture involving the purchase of postal reply coupons in



Italy and their exchange for stamps in the U.S.A. His enticing offer of exceptionally high returns, promising investors a 50% profit within 45 days, lured many individuals into his scheme (Stelter, Berger, Odewald and Schilder, 2013).

By forgoing the option to invest the funds in purchasing coupons and exchanging them for stamps, he opted to utilise the money from subsequent investors to provide returns to earlier investors. This method allowed him to amass substantial profits, but when the scheme eventually collapsed, a staggering sum of over \$20 million was lost, which was estimated to be equivalent to \$225 million in 2011. Since then, numerous variations of such fraudulent schemes have emerged worldwide, leading to the moniker of Ponzi as the epitome of financial deceit (Quisenberry, 2017; Rodney, 2010).

Despite its association with Charles Ponzi, the term "Ponzi scheme" has persisted over time, with different adaptations emerging throughout history. Regrettably, there have been notable instances of this fraudulent scheme being employed. The Morris Wolman annuity scheme in the 1970s and Bernie Madoff's colossal Ponzi scheme, which was exposed in 2008 and stands as the largest in history, are among the noteworthy examples (Geny, 2012).

Likewise, the existence of Ponzi schemes in Nigeria is not a recent phenomenon. These fraudulent investment schemes were prevalent during the 1980s and early 1990s. Notable examples include the Umana-Umana investment platform in Port Harcourt and Calabar, the Planwell scheme in Edo State, and the Nospecto in Lagos, which are among the earliest instances (Ayeni, 2023)

### **The Legality of Ponzi Schemes**

Ponzi schemes fall under the category of 'white collar crime', a term first introduced by Edwin Sutherland in 1940 to describe crimes committed by individuals of high social standing in the course of their professional activities. These schemes are typically non-violent in nature and are orchestrated by influential figures who are perceived as intelligent, well-liked, and respected within their respective industries. A notable example is the case of Bernard Madoff, a prominent Hedge Fund Manager and former president of the NASDAQ stock exchange, who

was convicted of orchestrating a sophisticated Ponzi scheme that resulted in losses exceeding 50 billion dollars (Greenspan, 2011).

According to Atoyebi and Nnadi, (2022) within the legal framework, Ponzi schemes are deemed unlawful and illicit. The underlying reason for this is that ventures which entail the collection of funds from the general public with the promise of repayment along with interest are designated solely for banks or entities established by statutory provisions to conduct such activities. Consequently, any other individual is legally proscribed from engaging in such undertakings.

Section 67(1) of the Investment and Securities Act (ISA), 2007 stipulates thus:

“No person shall make any invitation to the public to acquire or dispose of any securities of a body corporate or to deposit money with any Body Corporate for a fixed period or payable at call ...”, Ponzi schemes are therefore illegal and a felony punishable under the law as evident in subsection 2 which states thus; If an invitation to the public is made in breach of subsection (1) of this section, all persons making the invitation and every officer who is in default or anybody corporate making the invitation shall be separately liable to a penalty of N500,000 in the case of a body corporate and N100,000 in the case of an individual” (Atoyebi and Nnadi, 2022).

In addition, by a combined effect of sections 58(1) and 59 of the Banks and Other Financial Institutions Act (BOFIA), 2004, no person shall carry out financial business in Nigeria other than insurance and stockbroking, unless it is a company duly incorporated in Nigeria and holds a valid license granted by the Central Bank of Nigeria (CBN). Unarguably, Ponzi schemes operate without the license and authorisation of the CBN and are thus, illegal. Furthermore, according to section 67(2) of ISA, engaging in Ponzi schemes attracts a fine of N100,000 (one hundred thousand Naira) for individuals (natural persons) and N500,000 (five hundred thousand Naira) for corporate entities. Additionally, under section 59(6)(b) of BOFIA, participation in Ponzi schemes attracts a punishment of five years’ imprisonment or a fine of N1 million (one million Naira) or both as the case may be (Atoyebi and Nnadi, 2022).

Concerning the recovery of money lost in a Ponzi scheme, the position of the law is that the investors have no right of recovery since they willingly participated at their own risk. Nevertheless, the orchestrators of the scheme may still go to jail if convicted (Atoyebi and Nnadi, 2022).

### **Nigerian State Regulatory Agencies Responsible for Combating Ponzi Schemes**

State regulatory agencies are entities entrusted with the responsibility of overseeing and enforcing rules and standards within specific sectors to ensure compliance and protect the public interest. These agencies are often characterised by their independence from direct political control, allowing them to make impartial decisions based on established regulations (Maggetti, 2007). They are saddled with the responsibility to enforce regulations and supervise industries or sectors within their purview.

In Nigeria, there are many state regulatory agencies but this study focuses on the financial regulatory bodies, which include but are not limited to the Securities and Exchange Commission (SEC), the Economic and Financial Crimes Commission (EFCC), the Nigerian Financial Intelligence Unit (NFIU), the Corporate Affairs Commission (CAC), and the Central Bank of Nigeria (CBN). These are some of the financial regulatory bodies in Nigeria that are responsible for combating Ponzi Schemes.

Regulatory bodies strive to address and deter deceptive practices like Ponzi schemes. Their primary objective is safeguarding both individuals and enterprises from such schemes through the enforcement of regulations, thorough investigations, and necessary measures against perpetrators of fraudulent activities (Munger, 2010; Sperry, 2011).

### **Regulatory Enforcements and Pervasiveness of Ponzi Schemes in Nigeria**

This study showed that the prevalence of Ponzi schemes in Nigeria is not unconnected with the failures of, and inadequacies of financial regulatory bodies in the country. To achieve this goal, the weaknesses or shortcomings of the financial regulatory agencies in Nigeria that

are relevant to this study are highlighted. The study proceeded with a step-by-step argument to elucidate how these weaknesses have hindered the effective enactment and enforcement of policies that could battle the prevalence and proliferation of Ponzi schemes in Nigeria.

Nigeria, like any other nation, has confronted various challenges and deficiencies in the operations of its financial regulatory agencies. Despite the pivotal role these agencies play in safeguarding the financial system, there have been instances where they have encountered limitations and failures, ultimately leading to their ineffectiveness in carrying out their responsibilities and safeguarding the public from financial ruin. The following are key areas where the financial regulatory bodies have fallen short:

**a. Regulatory Capture:** Regulatory capture occurs when regulatory agencies become influenced or controlled by the very industries they are supposed to regulate (Noah et. al., 2020). In Nigeria, there have been allegations of regulatory capture, where regulatory agencies may be compromised due to corruption, political interference, or undue influence from powerful entities (Ashiru et. al., 2021). This compromises the independence and effectiveness of these agencies in combating fraudulent practices like Ponzi schemes (Craig and Richardson, 2009).

**b. Lack of Resources:** Regulatory agencies in Nigeria frequently encounter challenges related to resource limitations, such as inadequate funding, understaffing, and insufficient technological infrastructure (Aliyu, 2014). These constraints significantly impede their capacity to efficiently fulfil their responsibilities, conduct comprehensive investigations, and stay abreast of the ever-changing strategies employed by fraudsters (Apansile, 2014).

**c. Inadequate Enforcements:** Regulatory agencies in Nigeria encounter a significant obstacle in the insufficient enforcement of regulations. Despite the presence of strong regulatory frameworks, the enforcement of these regulations has frequently been inconsistent and ineffective. As a result, fraudulent activities such as Ponzi schemes continue to exist and flourish (Adisa, 2018).

**d. Weak Collaboration and Coordination:** Collaboration and coordination among various regulatory agencies play a pivotal role in ensuring the efficient supervision of the financial system. Nevertheless, Nigeria has witnessed instances where coordination and information sharing between regulatory bodies have been inadequate. Such shortcomings can result in oversight gaps and an inability to effectively mitigate systemic risks (Freeman and Rossi, 2011).

### **The Failure of State Regulatory Agencies and Ponzi Schemes in Nigeria**

The concern regarding the presence of Ponzi schemes in Nigeria has garnered attention in recent years. Nigeria has encountered difficulties in effectively overseeing and controlling investment schemes due to the above highlighted inadequacy of regulatory bodies such as the Securities and Exchange Commission (SEC), the Economic and Financial Crimes Commission (EFCC), the Nigerian Financial Intelligence Unit (NFIU), the Corporate Affairs Commission (CAC), and the Central Bank of Nigeria (CBN), among others. Consequently, this has fostered an environment conducive to the proliferation of Ponzi schemes and other forms of fraudulent investment activities.

For instance, when in 2016 the MMM Ponzi scheme gained ground in Nigeria, with thousands of Nigerians subscribing to it, it drew the attention of Nigeria's regulatory agencies in general and Nigeria's Economic and Financial Crimes Commission (EFCC) in particular, only merely stated that the scheme was under surveillance (Punchonline, 2022). The EFCC, however, was unable to avert the tragedy, resulting in innocent Nigerians being deprived of their well-deserved earnings.

Likewise, early in 2020, the Security and Exchange Commission (SEC) in Nigeria issued a warning to stakeholders and the general public regarding the activities of promoters of fraudulent schemes in the country (Comms Week, 2020). The Commission also identified specific unlawful/unlicensed market operators/fraudulent investments that individuals should be vigilant about in 2020:

- **Loom Nigeria Money**

- Box Value Trading Company Ltd
- Now-Now Alert ● Flip Cash Investment
- Result Investment Nigeria Limited
- Helping Hand and Investment
- No Failure Development and Empowerment Nigeria Ltd.
- MBA Forex and Investment Ltd
- Federate Investors and Trading Company
- Jamalife Helpers Global Ltd
- Flexus Global Solutions and Investment Ltd
- United Capital Investment Company Limited (Comms Week, 2020).

Similarly, in 2022 the Central Bank of Nigeria (CBN) made efforts to warn and intensify public awareness about Ponzi schemes (Vanguardngr.com, 2022). At face value the strategies of the SEC and CBN may appear to be a step in the right direction, however, their moves lacked the key ingredients necessary to thwart the prevalence of Ponzi schemes in Nigeria. Merely raising public awareness is good but is grossly inadequate.

As highlighted above, lack of resources is a major constraint among regulatory agencies in Nigeria. Regulatory bodies often face obstacles due to limited resources, including lack of funding, understaffing, and inadequate technological infrastructure. These limitations greatly hinder their ability to effectively carry out their duties, conduct thorough investigations, and keep up with the constantly evolving tactics used by criminals. (Aliyu, 2014). The lack of technological and cyber abilities to combat the networks and websites of identified or suspected Ponzi schemes in Nigeria aids them to thrive.



In addition, effective collaboration and coordination among regulatory agencies are lacking to effectively mitigate systemic risks (Freeman and Rossi, 2011). Furthermore, Nigerian regulatory agencies face a major challenge due to the inadequate enforcement of regulations. Despite having robust regulatory frameworks in place, the enforcement of these regulations has often been inconsistent and ineffective. Consequently, fraudulent activities like Ponzi schemes persist and thrive (Adisa, 2018).

Finally, regulatory capture has drastically impeded the ability of regulatory agencies to perform effectively. According to Noah et. al., (2020), regulatory capture happens when regulatory authorities are influenced or manipulated by the industries they are tasked with regulating. This undermines the autonomy and efficiency of these organisations in addressing deceptive activities such as Ponzi schemes (Craig and Richardson, 2009).

## Conclusion

This study attempted to show that the prevalence and seemingly high success rate of Ponzi schemes in Nigeria go beyond the prevailing economic hardship in the country, the desire to get rich quickly, high level of unemployment and poverty, the quest to achieve financial goals, and inadequate financial education as replete in the literature. The study found that in addition to all these factors, the failure of effective state regulation in public financial investments is responsible for the prevalence of Ponzi schemes in Nigeria.

Regulatory failure in Nigeria takes on many forms which include but are not limited to lack of resources (Aliyu, 2014), regulatory capture (Ashiru et, al., 2021), inadequate enforcement (Adisa, 2018), and weak collaboration and coordination among regulatory agencies in Nigeria (Freeman and Rossi, 2011). The consequence of regulatory failure is the inability of the regulatory bodies to effectively carry out their mandate in protecting the citizens from fraudulent schemes. This in turn engenders an atmosphere where the public becomes vulnerable and falls prey to such schemes, losing their resources in the process. For instance, the Norrenberger Financial Investments Scheme's report revealed that Nigerian citizens had incurred losses exceeding N300bn due to Ponzi schemes over a five-year period, as of 2022

(Ayeni, 2023). This huge loss of financial resources to Ponzi schemes is worrisome and inimical to growth and development.

Thus, state regulatory agencies have within them, the power to rewrite history and avoid a future repetition of these ugly occurrences. Whether the regulatory agencies will, in the future, rise above the challenges and effectively combat Ponzi schemes in Nigeria remains to be seen. For now, however, Nigeria appears to be grappling with the looming dangers of the prevalence and proliferation of Ponzi schemes in the nation, which appears to be the result of regulatory failure.

### **Recommendations**

From the foregoing conclusion of the study, it is recommended as follows:

1. **Strengthening of Regulatory Frameworks and Enforcement Mechanisms:** Strengthened regulatory frameworks and enforcement mechanisms create a culture of compliance. Clear regulations and effective enforcement mechanisms make it more difficult for businesses and individuals to evade regulatory requirements. As a result, non-compliant entities are more likely to be identified, penalized, or sanctioned, serving as a deterrent to potential violators and promoting a level playing field.

2. **Enhanced Regulatory Powers:** Regulatory entities with enhanced capabilities can advocate for and enforce more robust laws that are specifically aimed at Ponzi schemes. This involves defining Ponzi schemes as illegal practices and imposing severe penalties on individuals involved in such activities. Strengthening the legal framework sends a clear message that fraudulent schemes will not be tolerated and acts as a deterrent to potential fraudsters. In addition, enhanced regulatory powers provide agencies with the ability to conduct more rigorous surveillance and monitoring of financial activities. With their expanded authority, regulatory bodies can effectively monitor suspicious investment schemes, track financial transactions, and identify potential Ponzi schemes at an early stage. This proactive approach enables timely intervention and helps prevent further victimization.

3. Cross-Agency Collaboration: The effectiveness of combating Ponzi schemes greatly depends on the collaboration between different agencies. Ponzi schemes typically entail complicated financial transactions, involve multiple jurisdictions, and are connected to a network of individuals and entities. It is crucial for regulatory agencies, law enforcement bodies, and other relevant stakeholders to cooperate in addressing this problem. Various regulatory agencies and law enforcement entities contribute their distinct knowledge and resources to the discussion. Working together enables agencies to leverage each other's strengths and capabilities. For instance, financial regulators may have specialized knowledge in detecting fraudulent investment schemes, whereas specialized law enforcement units may have experience in carrying out intricate financial investigations. Through the integration of their expertise and resources, agencies can present a stronger response to Ponzi schemes.

4. Regulatory Autonomy: Regulatory autonomy signifies the independence and freedom of regulatory agencies from external influence or control. It involves the authority of regulatory bodies to make decisions and carry out their functions based on their expertise, mandate, and the public interest, without being unduly influenced by political, industry, or other external pressures. Regulatory autonomy acts as a safeguard against unwarranted political interference for agencies. Decisions influenced by political agendas have the potential to undermine the efficacy of regulations, jeopardize public safety, and obstruct the agency's ability to execute its mandate. Autonomy ensures that regulatory decisions are grounded in objective criteria and scientific evidence, rather than short-term political considerations.

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