IJAAR PUBLISHING®

American Research Journal of Contemporary Issues | ISSN: 3027-0189
Vol. 4, Issue 3 (2026) | www.ijaar.org

Ponzi Scheme Activity and Its Impact on the Nigerian Economy

Lawal, Tunji Ibrahim, Ibrahim Shaba Yahaya, Abdulraheem Muhammed Shaibu,
Queen Esther Omejeh
Kogi State Polytechnic, Lokoja

Abstract

Ponzi schemes have become a persistent feature of Nigeria's informal and digitally mediated investment environment. Although public discussions commonly emphasise the financial losses suffered by individual participants, the wider implications for household welfare, productive investment, financial-sector confidence and economic development remain insufficiently integrated in the literature. This article presents a structured integrative review of the drivers, evolution and economic consequences of Ponzi scheme activity in Nigeria. It synthesises recent studies on financial fraud, investor behaviour, financial literacy, digital finance, institutional trust and consumer vulnerability, while incorporating evidence from Nigerian regulatory developments and major investment-scheme failures. The review indicates that participation in Ponzi schemes is not adequately explained by greed or financial illiteracy alone. Economic insecurity, declining purchasing power, limited access to rewarding formal investment opportunities, behavioural biases, social-network influence, technological convenience, regulatory latency and institutional distrust interact to increase investor vulnerability. Ponzi activity affects the economy through several transmission channels, including household wealth destruction, indebtedness, reduced consumption, diversion of capital from productive activities, business distress, erosion of confidence in legitimate financial institutions and increased regulatory and enforcement costs. These consequences may persist after a scheme collapses because victims experience financial scarring and may withdraw from formal investment markets. The article develops the Ponzi Economic Transmission Framework, which conceptualises Ponzi activity as a five-stage process involving vulnerability formation, trust mobilisation, speculative capital diversion, scheme collapse and economic transmission. The framework introduces the concepts of fraud-induced financial disintermediation, household balance-sheet scarring, trust-contagion effects and regulatory latency. The article concludes that effective prevention requires an integrated strategy combining financial capability, real-time market surveillance, platform accountability, rapid enforcement, investor-verification systems and improved access to credible investment opportunities.

Keywords: Ponzi schemes; Nigerian economy; investment fraud; financial literacy; investor behaviour; financial trust; household welfare; digital finance

https://doi.org/10.46654/0f9pyf33

1. Introduction

The growth of digital finance and social-media communication has expanded access to investment information and financial opportunities in Nigeria. At the same time, these developments have created new channels through which fraudulent investment schemes can recruit participants, mobilise funds and operate across geographical boundaries. Ponzi schemes have increasingly adopted the language of cryptocurrency trading, artificial intelligence, foreign-exchange investment, agricultural finance, crowdfunding, digital assets and automated wealth management. The appearance of technological sophistication may make fraudulent schemes difficult to distinguish from legitimate financial innovation, particularly where investors possess limited access to reliable financial advice.

A Ponzi scheme is a fraudulent investment arrangement in which returns paid to earlier participants are derived primarily from funds contributed by new participants rather than from sustainable income-generating activities. The continued operation of the scheme therefore depends on a growing inflow of new investment. Once new contributions become insufficient to meet withdrawal demands and promised returns, the scheme experiences liquidity failure and eventually collapses. Although early participants may receive payments, these payments create an appearance of profitability that encourages reinvestment and attracts additional participants.

Nigeria has experienced several waves of fraudulent investment activity. The rapid expansion and eventual failure of Mavrodi Mundial Moneybox, commonly known as MMM, represented an important period in public awareness of Ponzi activity. Subsequent schemes have adopted increasingly sophisticated business identities and technological narratives. The reported collapse of the digital investment platform CBEX in 2025 renewed national concern about online investment fraud, regulatory oversight and investor protection. Contemporary schemes may present corporate-registration documents, professional websites and apparently successful withdrawal records as evidence of legitimacy even where they are not authorised to provide investment services.

The enactment of the Investments and Securities Act 2025 represented an important development in Nigeria's investor-protection framework. The legislation strengthened the regulatory basis for addressing illegal investment activity and brought digital assets more clearly within the securities-regulatory environment. Nevertheless, recent events suggest that legislation alone may not prevent investor losses where public awareness is weak, fraudulent schemes spread rapidly through social networks and regulatory intervention occurs after substantial funds have already been mobilised.

Previous Nigerian studies have examined financial literacy, investment behaviour, online fraud, investor protection and the factors encouraging participation in high-yield investment schemes. However, the literature remains fragmented. Many studies concentrate on why individuals participate or on the direct financial losses experienced after scheme failure. Less attention has been given to the processes through which Ponzi activity may affect aggregate consumption, household financial resilience, entrepreneurial capital, trust in formal financial institutions and long-term participation in legitimate investment markets.

The economic consequences of Ponzi schemes extend beyond the amount of money transferred to fraudulent operators. Funds invested in such schemes may have been withdrawn from savings accounts, businesses, pension income, education funds or productive investments. Some participants borrow money, dispose of assets or use business working capital in anticipation of unusually high returns. Following collapse, financial losses may

reduce household consumption, increase indebtedness, weaken enterprises and create long-term distrust of financial institutions. The consequences may therefore spread across households, businesses, communities and the wider financial system.

This review addresses the following questions:

1. What economic, behavioural, institutional and technological factors encourage participation in Ponzi schemes in Nigeria?
2. Through what mechanisms do Ponzi schemes affect households, businesses, financial institutions and the wider economy?
3. How have digital technologies transformed the structure and reach of Ponzi activity?
4. What limitations exist in the current Nigerian literature?
5. What theoretical framework can explain the wider economic transmission of Ponzi scheme activity?

The principal contribution of the article is the development of the Ponzi Economic Transmission Framework. The framework moves beyond the conventional assumption that Ponzi schemes produce only direct investor losses. It explains how vulnerability, social trust, digital amplification, capital diversion, financial collapse and post-fraud behaviour interact to create wider economic consequences.

2. Review Method

2.1 Review Design

The study adopted a structured integrative-review approach. An integrative review was considered appropriate because research relating to Ponzi activity is distributed across economics, finance, criminology, psychology, law, information systems and public policy. The available literature also comprises quantitative studies, qualitative investigations, legal analyses, conceptual publications and institutional reports.

The review focused primarily on literature published between January 2020 and July 2026. Earlier publications were retained where they provided important theoretical foundations relating to behavioural finance, financial fraud, social influence, institutional trust and investor decision-making.

Relevant literature was identified through searches of Scopus, Web of Science, Google Scholar, African Journals Online and multidisciplinary scholarly databases. Search terms included combinations of:
“Ponzi scheme” OR “investment fraud” OR “fraudulent investment scheme” OR “pyramid scheme” OR “online investment scam”
AND
Nigeria OR Nigerian OR Africa OR “developing economy” OR “emerging economy”
AND
economy OR “economic impact” OR “financial literacy” OR “investor behaviour” OR trust OR household OR business OR “financial inclusion” OR regulation OR digital finance.

Studies were considered relevant where they examined the causes, operation, detection, regulation or consequences of Ponzi schemes and related investment fraud. Nigerian evidence was prioritised. Evidence from other emerging economies was incorporated where it provided useful theoretical explanations or comparable institutional conditions.

The literature was synthesised thematically. The principal themes were conceptual characteristics, participation drivers, digital transformation, household effects, business

effects, financial-sector consequences, macroeconomic implications, regulatory responses and prevention.

2.2 Scope and Limitations of the Evidence

Reliable estimates of the total economic losses associated with Ponzi schemes in Nigeria remain limited. Many victims do not report losses because of embarrassment, uncertainty about recovery, participation in informal arrangements or concerns that they may be blamed for their investment decisions. Fraudulent operators may also use several organisations, payment channels and digital identities, making financial flows difficult to trace.

Consequently, figures reported by the media or enforcement agencies may represent only identifiable claims rather than the complete economic cost. Current estimates should therefore be interpreted cautiously. The absence of comprehensive data constitutes an important finding because it limits policy evaluation and may conceal the actual scale of household and business exposure.

3. Understanding Ponzi Scheme Activity

3.1 Ponzi Schemes and Legitimate Investment

The defining characteristic of a Ponzi scheme is not merely the promise of a high return. Legitimate investments may generate high returns but normally involve identifiable risks, productive activities, market exposure and transparent sources of revenue. A Ponzi scheme misrepresents the origin and sustainability of returns.

Funds from new participants are used to meet withdrawal requests or pay earlier participants. Early payments perform a strategic function because they create evidence of apparent success. Participants may share payment confirmations with relatives, colleagues and online communities, thereby increasing the credibility of the scheme.

Legitimate investment activity generally involves several characteristics:

- identifiable sources of income.
- transparent business operations.
- evidence of regulatory authorisation where required.
- disclosure of investment risks.
- verifiable management and governance arrangements.
- realistic returns that vary with economic and market conditions.
- independent financial reporting.

Ponzi schemes commonly display contrasting characteristics:

- unusually high or guaranteed returns;
- weak or unverifiable explanations of revenue generation;
- dependence on continuous participant recruitment;
- secrecy regarding investment activities;
- inconsistent documentation.
- aggressive referral incentives.
- pressure to reinvest returns.
- initial ease of withdrawal followed by delays or restrictions.
- use of registration documents as substitutes for investment authorisation.

Corporate registration should not be interpreted as regulatory approval to receive investments from the public. The distinction is important because some investors assume that the

existence of a registered company proves that its investment activities have been examined and approved by financial regulators.

3.2 Ponzi Schemes and Pyramid Schemes

Ponzi and pyramid schemes are related but conceptually distinct. A conventional Ponzi scheme is usually controlled by a central operator who receives investors' funds and claims to generate returns through investment activity. Participants may not be required to recruit additional members directly.

A pyramid scheme depends more visibly on participant recruitment. Participants obtain benefits by introducing new members whose payments support rewards at higher levels. In practice, many contemporary schemes combine elements of both models. They may promise returns from cryptocurrency, agriculture or foreign-exchange trading while also providing referral bonuses.

Hybrid schemes are particularly difficult for investors to evaluate because recruitment payments may be presented as legitimate marketing commissions, while the underlying investment activity remains unverifiable.

4. Evolution of Ponzi Scheme Activity in Nigeria

Ponzi activity in Nigeria has evolved through several stages. Earlier schemes frequently depended on physical meetings, printed promotional materials and direct personal recruitment. More recent schemes operate through websites, messaging applications, social-media groups, mobile-payment systems and digital assets.

The expansion of internet access has reduced the cost of recruiting participants. A single promoter may communicate simultaneously with thousands of potential investors. Digital platforms allow operators to present images of wealth, testimonials, account balances and payment confirmations that may be difficult to verify.

Modern schemes increasingly employ technological narratives. Common descriptions include:

- automated cryptocurrency trading;
- artificial-intelligence investment systems;
- foreign-exchange trading robots;
- digital commodity trading;
- blockchain investment;
- decentralised finance;
- agricultural investment technology;
- automated arbitrage;
- international crowdfunding.

The use of technical language may create information asymmetry. Potential participants may assume that their inability to understand the investment process reflects the advanced nature of the technology rather than the absence of genuine economic activity.

Digital technology also enables fraudulent schemes to operate across national boundaries. Payments may be transferred through digital wallets, cryptocurrencies, payment intermediaries or numerous bank accounts. This structure complicates investigation, asset tracing and recovery.

5. Theoretical Foundations

5.1 Fraud Triangle and Fraud Diamond Perspectives

The Fraud Triangle explains fraudulent behaviour through the interaction of pressure, opportunity and rationalisation. The framework is useful for examining the behaviour of Ponzi operators.

Economic pressure, personal financial objectives or the desire to maintain an appearance of success may provide motivation. Weak oversight, regulatory gaps and digital anonymity create opportunities. Operators may rationalise their conduct by describing the arrangement as temporary, presenting themselves as wealth creators or believing that future investment profits will eventually cover existing obligations.

The Fraud Diamond extends the framework by incorporating capability. Ponzi operators require the ability to persuade investors, manage complex financial flows, maintain secrecy and construct credible narratives. Digital competence may strengthen this capability by enabling sophisticated websites, automated payment records and large online communities.

However, fraud-based theories concentrate primarily on perpetrators and provide limited explanations of investor participation. They must therefore be combined with behavioural and institutional perspectives.

5.2 Prospect Theory

Prospect Theory argues that people evaluate financial decisions relative to perceived gains and losses rather than solely through objective expected value. Individuals experiencing economic hardship may become more willing to accept high-risk opportunities where conventional income appears insufficient to achieve financial goals.

The possibility of rapid wealth creation may appear attractive where households perceive that inflation, unemployment or declining income has reduced the effectiveness of ordinary savings. Potential gains may receive greater attention than the probability of scheme collapse.

Loss aversion may also influence behaviour after investment. Participants who suspect that a scheme is becoming unstable may invest additional funds because withdrawing or accepting the loss would require them to acknowledge that the original decision was unsuccessful. This behaviour may contribute to repeated investment and delayed exit.

5.3 Social Proof and Herd Behaviour

Individuals frequently rely on the behaviour of others when evaluating uncertain opportunities. Evidence that friends, colleagues or respected community members have invested may reduce perceived risk.

Early participants who receive returns become visible evidence of apparent legitimacy. Their experiences may be more persuasive than regulatory warnings because they are personally known to potential participants.

Huang et al. (2021) demonstrated that demographic and social affinities can influence participation patterns within Ponzi networks. Social relationships are therefore not merely channels through which investment information travels. They may function as informal trust mechanisms.

Herd behaviour may accelerate scheme growth. As participation increases, individuals may interpret popularity as evidence of financial success. The resulting feedback process can be expressed as:
Early payment → positive testimony → increased trust → wider recruitment → increased fund inflow → additional payments → perceived legitimacy.

This cycle continues until new investment becomes insufficient to support existing obligations.

5.4 Institutional Theory

Institutional Theory explains how confidence in formal structures influences economic behaviour. Where individuals perceive conventional financial institutions as inaccessible, unrewarding or unresponsive, informal investment arrangements may appear attractive.

Ponzi operators may exploit dissatisfaction with established institutions by presenting their schemes as alternatives to traditional banking or investment systems. They may describe formal regulation as an obstacle created by financial elites or government institutions.

Institutional weakness may therefore influence Ponzi activity in two ways. Weak monitoring may create opportunities for operators, while distrust of established financial institutions may increase demand for alternative investments.

5.5 Consumer Vulnerability Perspective

Consumer vulnerability arises where individual, social and economic conditions reduce a person's ability to protect their interests. Vulnerability may be temporary or persistent.

Financial hardship, unemployment, illness, retirement, limited financial knowledge and urgent family obligations may increase susceptibility to unrealistic investment promises. Bar-Lev et al. (2022) showed that financial-fraud vulnerability cannot be explained by demographic characteristics alone. Financial behaviour, social context and psychological factors also influence victimisation.

This perspective discourages the simplistic characterisation of victims as greedy or unintelligent. Ponzi schemes are deliberately designed to exploit trust, hope, uncertainty and financial need.

6. Drivers of Ponzi Scheme Participation in Nigeria

6.1 Economic Insecurity

Economic insecurity can increase demand for high-yield investment opportunities. Where household income is insufficient to meet living costs, individuals may search for alternative sources of income.

Ponzi schemes frequently present themselves as solutions to economic exclusion. Promotional messages may emphasise financial freedom, passive income, entrepreneurship and protection against inflation.

Economic hardship does not automatically lead to participation. However, it may reduce the perceived attractiveness of conventional savings where returns appear insufficient. It may also increase the emotional appeal of rapid financial improvement.

6.2 Financial Literacy and Investment Capability

Financial literacy includes knowledge of interest, inflation, risk diversification, investment returns and financial regulation. Evidence suggests that financial literacy can improve fraud-detection capacity (Engels et al., 2020).

However, financial literacy should not be treated as complete protection. Individuals with financial knowledge may still be influenced by overconfidence, trust, social pressure or misleading evidence.

The relevant capability is broader than knowledge. Investors require the ability to:

- compare expected returns with market conditions;
- distinguish corporate registration from investment authorisation;
- verify regulatory status;
- evaluate business models;
- recognise liquidity dependence;
- identify misleading testimonials;
- understand the relationship between risk and return.

Financial education that merely defines savings and investment may therefore be insufficient.

6.3 Unrealistic Return Expectations

Ponzi schemes exploit the expectation that wealth can be accumulated rapidly with limited risk. High expected returns may be normalised through online success stories and speculative financial culture.

The psychological effect of an advertised return depends partly on the investor's reference point. A return that appears unrealistic to an experienced investor may appear plausible to a person with limited exposure to regulated investment products.

6.4 Social Networks and Affinity

Many participants are introduced to schemes by trusted individuals. Recruitment may occur through families, workplaces, religious communities, professional organisations and online groups.

Affinity reduces the perceived need for independent verification. A participant may reason that a close relative or respected colleague would not intentionally recommend a fraudulent opportunity.

The recommender may also be a victim. Early participants who receive payments may genuinely believe that the investment is successful. This creates a chain of unintentional promotion.

6.5 Digital Platforms and Technological Legitimacy

Professional websites, mobile applications and automated dashboards can create an appearance of legitimacy. Investors may interpret technological sophistication as evidence of financial competence.

Digital platforms also facilitate rapid scale. Online recruitment allows schemes to expand before regulators receive sufficient complaints to initiate investigation.

The speed of digital mobilisation may exceed the speed of conventional enforcement. This gap is described in this article as regulatory latency.

6.6 Regulatory Latency

Regulatory latency refers to the period between the emergence of a potentially fraudulent investment activity and effective intervention.

During this period, the scheme may:

- recruit participants;
- accumulate funds;
- create visible payment records;
- establish social legitimacy;
- transfer assets;
- expand across jurisdictions.

Regulatory latency may arise because agencies require evidence before intervention, victims delay reporting or schemes repeatedly change identities.

The problem is not necessarily the absence of regulation. It may reflect the difference between the speed of digital financial activity and the speed of investigation and enforcement.

6.7 Limited Access to Professional Financial Advice

Many small investors rely on informal advice because professional investment services may appear expensive or inaccessible. Social-media influencers, friends and scheme promoters may therefore become substitute financial advisers.

The absence of independent advice increases information asymmetry. Investors may receive information primarily from individuals who benefit from recruitment.

7. Effects on Nigerian Households

7.1 Destruction of Household Wealth

The most direct economic effect is the loss of invested funds. Household losses may include:

- savings;
- salaries;
- retirement income;
- business capital;
- education funds;
- emergency reserves;
- proceeds from asset sales.

The welfare effect depends on the economic position of the victim. The loss of a relatively small amount may produce serious consequences for a low-income household.

7.2 Household Balance-Sheet Scarring

This article introduces the concept of household balance-sheet scarring.

Household balance-sheet scarring refers to the persistent weakening of household financial capacity after fraud-related losses. The effect may continue after the immediate loss because households may experience:

- increased debt;
- reduced savings;

- loss of productive assets;
- inability to meet education or healthcare expenses;
- reduced capacity to respond to future emergencies;
- prolonged repayment obligations.

The financial impact is therefore dynamic rather than temporary.

7.3 Reduced Household Consumption

Losses may reduce spending on goods and services. Affected households may postpone purchases, reduce discretionary expenditure or depend on relatives.

Where many households are affected, reduced expenditure may influence local businesses. This creates an indirect relationship between financial fraud and economic activity.

7.4 Indebtedness and Distress Asset Sales

Some participants borrow to invest because expected returns appear greater than borrowing costs. Others sell land, vehicles, business equipment or household assets.

Following collapse, the investor loses the anticipated return but retains the debt obligation. This increases financial vulnerability.

7.5 Psychological and Social Consequences

Financial fraud may produce anxiety, shame, family conflict and loss of confidence. Victims may avoid reporting because they fear ridicule.

Psychological consequences also have economic implications. Financial stress may reduce productivity, decision quality and willingness to participate in future investments.

8. Effects on Businesses and Productive Investment

8.1 Diversion of Entrepreneurial Capital

Small-business owners may invest working capital in Ponzi schemes in an attempt to increase business resources. Funds that would otherwise support inventory, equipment, employee wages or business expansion are redirected to fraudulent investments.

This process is described as speculative capital diversion.

Speculative capital diversion occurs when resources intended for productive economic activity are transferred into unsustainable investment arrangements.

8.2 Business Liquidity Problems

The collapse of a scheme may leave a business without sufficient funds to meet short-term obligations.

Potential consequences include:

- delayed employee salaries;
- inability to purchase inventory;
- loan repayment difficulties;
- reduced production;
- business closure.

8.3 Distortion of Entrepreneurial Incentives

The visibility of apparently high investment returns may change perceptions of productive enterprise. Business activity requires effort, uncertainty and time. Ponzi schemes present wealth accumulation as rapid and passive.

Where speculative returns appear more attractive than productive investment, individuals may reduce investment in entrepreneurship and skills development.

9. Financial-Sector and Capital-Market Effects

9.1 Erosion of Financial Trust

The collapse of fraudulent investment schemes may reduce confidence in legitimate financial institutions. Victims may generalise the experience to regulated investments.

This process is described as the trust-contagion effect.

The trust-contagion effect occurs where distrust generated by one fraudulent institution spreads to legitimate financial organisations, digital platforms or investment products.

9.2 Fraud-Induced Financial Disintermediation

Financial intermediation occurs when financial institutions channel savings into productive investment. Ponzi schemes interrupt this process by attracting funds outside regulated financial channels.

This article introduces the concept of fraud-induced financial disintermediation.

Fraud-induced financial disintermediation occurs where investment fraud causes individuals to withdraw from formal financial participation or redirects savings away from regulated institutions.

The process may operate in two stages:
Savings diverted into fraudulent schemes → scheme collapse → distrust of formal and informal investments.

The result may be increased preference for cash, physical assets or non-productive savings.

9.3 Reduced Capital-Market Participation

Investor confidence is important to capital-market development. Repeated investment failures may strengthen the perception that financial markets are unsafe.

This may reduce demand for legitimate securities, collective investment schemes and long-term financial products.

9.4 Reputational Effects on Financial Innovation

Digital investment fraud may create suspicion toward legitimate financial technology. Consumers may have difficulty distinguishing regulated digital-asset services from fraudulent platforms.

Consequently, widespread fraud may slow responsible financial innovation and increase compliance costs for legitimate companies.

10. Macroeconomic Consequences

10.1 Misallocation of Capital

Economic growth depends partly on the allocation of savings to productive activities. Ponzi schemes redirect resources toward arrangements that do not generate sustainable output.

Funds may be consumed by operators, transferred abroad or used to pay earlier participants.

Although payments between participants may temporarily redistribute income, they do not necessarily create productive assets.

10.2 Effects on Consumption and Aggregate Demand

Household losses may reduce consumption. The scale of the macroeconomic effect depends on the number of victims and the size of their losses.

The effect may be stronger where affected households have limited savings because financial losses immediately influence spending.

10.3 Increased Enforcement and Regulatory Costs

Ponzi activity requires public resources for:

- investigation;
- prosecution;
- financial intelligence;
- asset tracing;
- public education;
- victim support;
- regulatory monitoring.

These costs represent resources that could have been used for other public purposes.

10.4 Effects on Economic Confidence

Economic activity depends on trust. Investors must believe that financial claims are credible and that institutions can enforce rules.

Repeated fraud may weaken confidence in the investment environment. Financial crime in Africa has been associated with weaker economic performance and challenges to sustainable development (Arthur et al., 2024).

10.5 Cross-Border Capital Leakage

Digitally enabled schemes may transfer funds across jurisdictions through cryptocurrency or international payment systems.

Where funds leave the domestic economy, asset recovery becomes difficult and economic losses may be amplified.

11. Digitalisation and the Changing Structure of Ponzi Schemes

Digital technologies have altered Ponzi activity in four major ways.

11.1 Recruitment Scale

Social media allows rapid and inexpensive communication. Promotional information can reach thousands of individuals within a short period.

11.2 Manufactured Social Evidence

Scheme promoters may display:

- payment screenshots;
- fabricated account balances;
- luxury lifestyles;
- testimonials;
- large online communities.

The volume of positive content may create the impression that independent evidence supports the scheme.

11.3 Algorithmic Amplification

Digital platforms may increase the visibility of popular content. Highly engaging investment claims may therefore reach large audiences without assessment of financial accuracy.

11.4 Technological Obscurity

Complex technological descriptions may discourage critical questioning. The use of artificial intelligence, blockchain or automated trading terminology may create perceived expertise.

Recent research on cryptocurrency fraud describes the interaction of cognitive biases, social influence and technological complexity as a form of crypto-cognitive exploitation (Perdana & Jiow, 2024).

12. The Ponzi Economic Transmission Framework

The Ponzi Economic Transmission Framework explains the progression from economic vulnerability to wider economic consequences.

Stage 1: Vulnerability Formation
Economic and institutional conditions increase demand for alternative investment opportunities.

Relevant factors include:

- income pressure;
- unemployment;
- inflation;
- low financial capability;
- dissatisfaction with formal investments;
- urgent financial goals.

Stage 2: Trust Mobilisation
Operators construct legitimacy through:

- social relationships;
- referral networks;
- early payments;
- professional branding;
- technological narratives;
- testimonials.

Stage 3: Speculative Capital Diversion
Participants redirect:

- household savings;

- business capital;
- borrowed funds;
- asset-sale proceeds;
- retirement income.

Stage 4: Liquidity Failure and Collapse
The scheme becomes unable to meet obligations because:

- new investment declines;
- withdrawal requests increase;
- regulatory intervention occurs;
- operators transfer or misappropriate funds.

Stage 5: Economic Transmission
Losses spread through five channels:

Transmission channel	Immediate effect	Wider consequence
Household channel	Loss of savings and increased debt	Reduced consumption and financial resilience
Enterprise channel	Loss of working capital	Reduced investment, employment and business continuity
Financial channel	Reduced investor confidence	Financial disintermediation and lower formal-market participation
Institutional channel	Increased enforcement demand	Higher regulatory costs and reduced confidence
Social channel	Conflict, shame and financial stress	Lower productivity and weakened community trust

The framework includes four feedback mechanisms:

1. Financial desperation feedback: losses may increase the desire to recover funds through another high-risk scheme.
2. Trust-contagion feedback: distrust may spread to legitimate financial institutions.
3. Financial-exclusion feedback: withdrawal from formal finance may increase dependence on informal investment networks.
4. Regulatory-reputation feedback: delayed intervention may reduce confidence in public institutions.

13. Research Propositions

The following propositions are developed from the framework.
Proposition 1: Economic insecurity increases participation in Ponzi schemes indirectly by increasing the attractiveness of unusually high investment returns.
Proposition 2: Financial literacy reduces participation where investors possess practical verification capability.
Proposition 3: Social-network trust weakens the relationship between risk awareness and investment avoidance.
Proposition 4: Early payment evidence increases perceived investment legitimacy through social proof.
Proposition 5: Digital-platform exposure strengthens the relationship between social influence and Ponzi participation.

Proposition 6: Regulatory latency increases the scale of investor exposure before scheme collapse.
Proposition 7: Ponzi-related losses reduce household consumption through household balance-sheet scarring.
Proposition 8: Loss of business capital mediates the relationship between Ponzi participation and small-business distress.
Proposition 9: Trust-contagion effects reduce participation in legitimate investment markets after Ponzi collapse.
Proposition 10: Repeated exposure to investment fraud contributes to fraud-induced financial disintermediation.

14. Novelty and Contribution

The article makes five principal contributions.
First, it moves the discussion beyond direct investor losses by identifying household, enterprise, financial, institutional and social transmission channels.

Second, it introduces household balance-sheet scarring to explain why the consequences continue after the initial loss.

Third, it develops the concept of fraud-induced financial disintermediation, which explains how fraud may reduce participation in legitimate financial systems.

Fourth, it introduces regulatory latency as an explanation for the rapid growth of digitally enabled investment schemes.

Fifth, the Ponzi Economic Transmission Framework integrates behavioural finance, fraud theory, institutional theory and consumer-vulnerability perspectives.

15. Policy Implications

15.1 Develop Practical Investment-Verification Education

Financial education should teach citizens how to verify:

- SEC authorisation;
- investment licences;
- management identities;
- financial statements;
- sources of investment income.

15.2 Establish Real-Time Warning Systems

Regulatory agencies should maintain accessible public databases identifying:

- authorised investment firms;
- unregistered platforms;
- active warnings;
- enforcement actions.

15.3 Strengthen Digital-Platform Accountability

Social-media platforms should develop procedures for identifying unlicensed financial advertising.

Investment advertisements should include verifiable regulatory information.

15.4 Improve Inter-Agency Coordination

The Securities and Exchange Commission, Economic and Financial Crimes Commission, Central Bank of Nigeria, Nigeria Financial Intelligence Unit and other relevant institutions should strengthen information-sharing.

15.5 Reduce Regulatory Latency

Early-warning systems should use:

- transaction monitoring;
- consumer complaints;
- online advertising patterns;
- abnormal investment-return claims;
- digital-network analysis.

15.6 Improve Access to Legitimate Investment Opportunities

Financial inclusion should extend beyond account ownership. Citizens require affordable, transparent and accessible savings and investment products.

16. Future Research

Future studies should estimate the scale of Ponzi-related losses using nationally representative data.

Longitudinal research is required to examine post-fraud outcomes.

Researchers should distinguish between:

- direct financial loss;
- household welfare loss;
- business-capital loss;
- psychological costs;
- financial-trust effects.

Future studies should examine whether victims withdraw from formal investments after scheme collapse.

Research should also evaluate:

- social-media influence;
- religious and community affinity;
- digital financial literacy;
- cryptocurrency knowledge;
- regulatory awareness.

The Ponzi Economic Transmission Framework should be tested using structural equation modelling, longitudinal household surveys and mixed-method research.

17. Conclusion

Ponzi scheme activity represents more than a form of individual investment fraud. It constitutes a wider economic and institutional problem.

Participation is influenced by economic insecurity, financial capability, social trust, behavioural biases, digital technologies and regulatory conditions.

The economic consequences extend beyond investor losses. Ponzi activity can weaken household balance sheets, reduce consumption, increase indebtedness, divert entrepreneurial capital and damage legitimate financial participation.

The Ponzi Economic Transmission Framework demonstrates that scheme activity progresses through vulnerability formation, trust mobilisation, capital diversion, collapse and economic transmission.

Effective prevention requires more than public warnings. Nigeria requires coordinated investor protection, accessible verification systems, digital-market surveillance, rapid enforcement and credible investment alternatives.

Reducing Ponzi activity is therefore important not only for protecting individual investors but also for strengthening financial trust, productive investment and sustainable economic development.

References

Ahmad, Z. (2025). Investment scams: The effect of bias-induced gullibility on victimization propensity. *Crime, Law and Social Change*. https://doi.org/10.1007/s10611-024-10187-1

Arthur, K. K., Asongu, S., Darko, P., Ansah, M. O., Adom, S., and Hlortu, O. (2024). Financial crimes in Africa and economic growth: Implications for achieving sustainable development goals. *Journal of Economic Surveys*. https://doi.org/10.1111/joes.12652

Bar-Lev, E., Maha, L. G., and Topliceanu, S. C. (2022). Financial frauds' victim profiles in developing countries. *Frontiers in Psychology, 13*, 999053. https://doi.org/10.3389/fpsyg.2022.999053

Cressey, D. R. (1953). *Other People's Money*. Free Press.

DeLiema, M., and Witt, P. (2023). Profiling consumers who reported mass-marketing scams: Demographic characteristics and emotional sentiments associated with victimization. *Journal of Consumer Policy*. https://doi.org/10.1057/s41284-023-00401-5

Engels, C., Kumar, K., and Philip, D. (2020). Financial literacy and fraud detection. *European Journal of Finance*. https://doi.org/10.1080/1351847X.2019.1646666

Federal Republic of Nigeria. (2025). *Investments and Securities Act 2025*. Federal Government of Nigeria.

Garz, S., Giné, X., Karlan, D., Mazer, R., Sanford, C., and Zinman, J. (2021). Consumer protection for financial inclusion in low- and middle-income countries: Bridging regulator and academic perspectives. *Annual Review of Financial Economics, 13*, 219–246. https://doi.org/10.1146/annurev-financial-071020-012008

Huang, L., Li, O. Z., Lin, Y., Xu, C., and Xu, H. (2021). Gender- and age-based investor affinities in a Ponzi scheme. *Humanities and Social Sciences Communications, 8*. https://doi.org/10.1057/s41599-021-00733-w

Huang, L., and Pontell, H. N. (2022). Crime and crisis in China's peer-to-peer online lending market: A comparative analysis of fraud. *Crime, Law and Social Change*. https://doi.org/10.1007/s10611-022-10053-y

Kasim, E. S. (2020). Ponzi schemes and their prevention: Insights from Malaysia. *Management and Accounting Review, 19*(3).

Lim, H., and Letkiewicz, J. (2023). Consumer experience of mistreatment and fraud in financial services: Implications from an integrative consumer-vulnerability

framework. *Journal of Consumer Policy*. https://doi.org/10.1007/s10603-023-09535-w

Msosa, S. K. (2022). The flip side of multi-level marketing: A diagnosis of factors leading to the mass uptake of unregulated pyramid schemes in South Africa. *Innovative Marketing*, *18*(1), 142–154.

Perdana, A., and Jiow, H. J. (2024). Crypto-cognitive exploitation: Integrating cognitive, social and technological perspectives on cryptocurrency fraud. *Telematics and Informatics*. https://doi.org/10.1016/j.tele.2024.102191

Reurink, A. (2019). Financial fraud: A literature review. In *A Research Agenda for Economic Crime and Development*. Edward Elgar.

Ryzhkova, M., and Kashapova, E. (2022). Stability of the Ponzi scheme phenomenon. *Terra Economicus*, *20*(3), 22–38.

Tajti, T. (2022). Pyramid and Ponzi schemes and the repercussions of differing regulatory approaches. *Acta Oeconomica*, *72*(1), 24–51. https://doi.org/10.1556/2052.2021.00313

Tversky, A., and Kahneman, D. (1979). Prospect theory: An analysis of decision under risk. *Econometrica*, *47*(2), 263–291.

Wolfe, D. T., and Hermanson, D. R. (2004). The fraud diamond: Considering the four elements of fraud. *CPA Journal*, *74*(12), 38–42.

Zhang, Y., Wu, Q., Zhang, T., and Yang, L. (2022). Vulnerability and fraud: Evidence from the COVID-19 pandemic. *Humanities and Social Sciences Communications, 9.* https://doi.org/10.1057/s41599-022-01445-5