Research Paper:

The Economic Consequences of **Ponzi Schemes** in Somalia

Institute of Public Finance - Somalia

@ipf.so

Authors:

Khalid Mohamed Mohamud
Ismail Abdi Ali,
Abdinasir Abdullahi Mohamud

Abstract

This paper examines the economic consequences of Ponzi schemes in Somalia, focusing on the period between 2020 and 2024. Somalia's fragile economic context, characterized by a nascent financial sector and socio-economic vulnerabilities, has made it susceptible to fraudulent investment schemes promising high returns. The study analyses the structure and impact of these schemes, drawing comparisons with experiences in other East African countries like Kenya and Uganda, as well as Nigeria, to highlight regional patterns and specific challenges in Somalia. Utilizing a mixed-methods approach, the paper synthesizes available data on estimated losses and discusses the regulatory landscape and challenges in combating financial fraud within the Somali context. The findings reveal that Ponzi schemes have led to significant financial losses for individuals, potentially hindering economic development and eroding trust in financial systems. The paper underscores the urgent need for strengthened financial regulation, enhanced public awareness, and international cooperation to protect Somalia's economy and its citizens from such detrimental schemes.

Introduction

Ponzi schemes represent a form of investment fraud that operates by paying returns to earlier investors with funds from more recent investors.1 This mechanism creates a deceptive appearance of a profitable enterprise, but in reality, it lacks any genuine underlying wealth-generating activity.1 The fundamental principle of a Ponzi scheme is its reliance on a continuous stream of new investors to sustain the promised returns to those who invested earlier.1 This inherent structure makes such schemes unsustainable in the long run, as they inevitably collapse when the influx of new money is insufficient to meet the obligations to existing investors.1 While sharing the characteristic of unsustainability, Ponzi schemes differ from pyramid schemes, where the primary focus is on recruiting new members, with returns often tied directly to the number of recruits rather than purported investment profits.3 The seemingly straightforward nature of the Ponzi scheme mechanism can be particularly insidious, as it can deceive individuals, especially in vulnerable economies, who may not possess the financial acumen to recognize the inherent risks and red flags associated with such operations.

The phenomenon of Ponzi schemes is not new and has manifested globally throughout history, often resulting in significant economic damage.2 Notable historical instances include the scheme orchestrated by Charles Ponzi in the early 20th century in the United States 2, and more recently, the massive fraud perpetrated by Bernie Madoff, whose multi-billion dollar Ponzi scheme unravelled during the global financial crisis of 2008.1 These cases underscore the potential for even sophisticated investors to fall victim to such schemes and highlight the immense scale of financial devastation they can cause. Furthermore, the collapse of Ponzi schemes has triggered severe economic and social upheaval in various countries. The implosion of pyramid schemes in Albania in the mid-1990s led to widespread civil unrest and the collapse of the government, 2, while the downfall of similar schemes in Colombia in the late 2000s resulted in riots and the declaration of a state of emergency.2 The recurring nature of Ponzi schemes across different historical periods and geographical locations points to a persistent weakness in financial systems and human behavior, emphasizing the continued relevance of studying their economic consequences in specific contexts such as Somalia.

Somalia presents a unique context that may render it particularly susceptible to the proliferation and damaging effects of Ponzi schemes.8 The country has endured a prolonged period of state fragility, marked by conflict, the absence of strong central governance, and the resultant weakness in economic and institutional structures.8 Its formal financial sector is still in its nascent stages, characterized by a limited number of established banks and significant challenges in developing and enforcing effective financial regulations and supervisory mechanisms.8 The Central Bank of Somalia is actively engaged in rebuilding its capacity to fulfill its mandate.14 Moreover, Somalia grapples with high levels of poverty, unemployment, and limited access to legitimate economic opportunities, factors that can make individuals more vulnerable to the deceptive promises of schemes offering rapid and substantial financial returns with seemingly minimal risk.10 The combination of these factors – state fragility, a developing financial sector, and widespread economic hardship – may create a conducive environment for Ponzi schemes to flourish by exploiting weaknesses in regulation, financial literacy, and economic desperation.

This paper examines the economic consequences of Ponzi schemes in Somalia, using the original material alongside academic sources and reports from international organizations. It begins with a review of literature on Ponzi schemes and financial fraud, then explores Somalia's economic vulnerabilities. The analysis includes data from the original paper, additional insights, and visual aids to illustrate key impacts. It also examines Somalia's regulatory challenges and, where possible, presents local case studies. The paper concludes with key findings and offers recommendations for . future research and policy

II. Literature Review

The academic literature defines a Ponzi scheme as a fraudulent investment operation that generates returns for earlier investors by using the capital of later investors, rather than from legitimate business activities or profits.1 This fundamental characteristic distinguishes Ponzi schemes from lawful investments, which derive profits from the production of goods and services or genuine financial transactions. Key indicators commonly associated with Ponzi schemes include the promise of unusually high returns with little or no risk, a consistent stream of returns irrespective of prevailing market conditions, investment opportunities that are not registered with regulatory authorities, and investment strategies that are vaguely described as being too complex or even secret.3 Furthermore, Ponzi schemes typically place a strong emphasis on attracting new investors, as this is the primary mechanism for generating the funds needed to pay the promised returns to earlier participants.3

The economic consequences of Ponzi schemes, as documented in the literature, are far-reaching. One significant impact is the diversion of savings and investments from productive sectors of the economy towards these unsustainable and ultimately fraudulent operations.2 When individuals invest in Ponzi schemes, their capital is not being used to fund businesses, create jobs, or contribute to economic growth. Instead, it is merely being circulated to create the illusion of profitability for early investors. When these schemes inevitably collapse, the majority of investors suffer substantial financial losses, often losing their entire principal investment.2 This can have devastating consequences for individuals and families, leading to financial hardship and long-term economic insecurity. Moreover, the proliferation and eventual collapse of Ponzi schemes can significantly undermine public trust in legitimate financial institutions and regulatory authorities.2 The perception that authorities failed to prevent or adequately address these frauds can erode confidence in the entire financial system, making individuals hesitant to participate in formal financial activities. In extreme cases, the widespread financial devastation caused by large-scale Ponzi schemes can even lead to broader macroeconomic instability and social unrest.2

Studies focusing on developing economies and fragile states highlight how existing vulnerabilities can amplify the negative consequences of financial fraud, including Ponzi schemes.2 Weak regulatory frameworks, often characterized by inadequate laws, limited enforcement capacity, and corruption, create an environment where fraudulent schemes can operate with less risk of detection and prosecution.2 Low levels of financial literacy among the population make individuals more susceptible to the deceptive tactics employed by Ponzi scheme promoters, as they may lack the understanding of basic financial principles needed to identify red flags.16 Widespread economic hardship and limited access to formal financial services can also drive individuals to seek out high-return investment opportunities, even if they appear suspiciously lucrative, making them more vulnerable to Ponzi schemes.16 Experiences from other developing countries in Africa, such as Kenya, Uganda, and Nigeria, demonstrate that Ponzi schemes often exploit these vulnerabilities, leading to substantial financial losses for individuals and potentially destabilizing effects on the economy.2

In the context of Somalia, understanding the specific characteristics of its financial system, economic vulnerabilities, and prevalent informal financial practices is crucial. Literature on Somalia's financial sector reveals the dominance of informal systems like Hawala for money transfers and the rapidly expanding use of mobile money for everyday transactions.11 While these systems play a vital role in facilitating economic activity and financial inclusion in a country with a nascent formal banking sector 10, their informal nature and the challenges in regulating them can also create avenues for exploitation by fraudulent schemes. Furthermore, Somalia's economy is characterized by a heavy reliance on remittances from the diaspora and significant vulnerability to external shocks such as climate change and global economic downturns.10 These economic pressures, coupled with potentially low levels of financial literacy within the population, may create a context where individuals are more susceptible to the deceptive promises of high returns offered by Ponzi schemes. Therefore, the existing literature suggests that Somalia's unique combination of economic fragility, a developing financial sector with a strong informal component, and potential vulnerabilities in financial literacy and regulation could create a fertile environment for Ponzi schemes to emerge and have significant economic consequences.

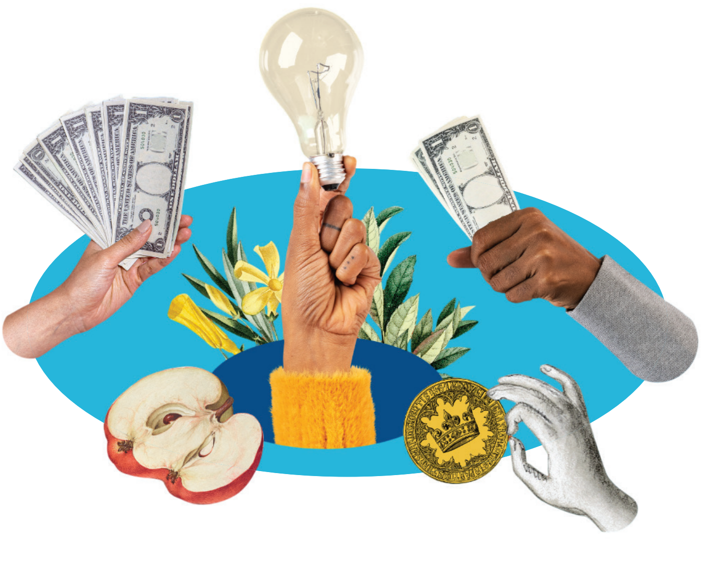
III. Economic Context of Somalia

Somalia's economic landscape presents a complex picture, marked by recent improvements alongside persistent vulnerabilities.43 Real GDP growth is projected to reach 4 percent in both 2024 and 2025, driven by positive trends in agriculture, exports, and remittances.43 However, this optimistic outlook is tempered by significant risks, including potential climate shocks and developments in domestic and regional security.43 The economy experienced a contraction of 0.3 percent in 2020, primarily due to the combined impact of flooding, locust infestations, and the COVID-19 pandemic.14 Despite these challenges, Somalia continues to grapple with low human development indicators and high levels of poverty.9 Agriculture and livestock remain the backbone of the Somali economy, providing livelihoods for a significant portion of the population.43 However, the trade and services sectors, particularly the rapidly expanding mobile money services, also play increasingly important roles.10 The Somali economy's heavy reliance on climate-sensitive sectors makes it particularly vulnerable to recurrent droughts and floods.9 Furthermore, ongoing insecurity and political instability, including the presence and activities of groups like al-Shabaab, continue to pose significant threats to economic development and stability.8 This backdrop of economic fragility and vulnerability may make individuals more inclined to seek out high-return investment opportunities, even those carrying substantial risk, thereby increasing their susceptibility to the allure of Ponzi schemes.

The structure of Somalia's financial sector is still in its early stages of development, having been significantly impacted by years of conflict.9 Formal banking services are primarily concentrated in urban centers, with limited reach in rural areas.12 The Central Bank of Somalia (CBS) is actively engaged in a process of institutional reform aimed at transforming it into a modern and effective regulatory body.10 While progress has been made in implementing financial sector reforms, including the issuance of prudential regulations for financial institutions and the review of regulations governing mobile money services 14, considerable work remains to establish a robust regulatory and supervisory framework that aligns with internationally accepted standards.12 A significant challenge in strengthening the financial sector is the pervasive issue of corruption and weak governance in Somalia.8 The country consistently ranks high in global corruption perception indices 8, and the limited enforcement of contracts and agreements further complicates the regulatory landscape. These weaknesses in financial sector regulation and governance can create a less restrictive environment for illicit financial activities, such as Ponzi schemes, to operate with a reduced risk of early detection and effective prosecution. The absence of a strong legal and regulatory framework has been identified as a contributing factor to the persistence of similar schemes in other countries 24

Remittances from the Somali diaspora play a pivotal role in the country's economy, representing a substantial portion of its GDP and providing crucial financial support to numerous households.10 Alongside remittances, mobile money services have achieved an exceptionally high rate of adoption in Somalia, with over three-quarters of the adult population utilizing these platforms for financial transactions, making mobile money the primary driver of financial inclusion.10 Informal financial networks, particularly the Hawala system, also remain critically important for facilitating both domestic and international money transfers, especially given the limited reach and trust in the formal banking sector.11 While these alternative financial systems are indispensable for the Somali economy and have significantly contributed to financial inclusion, their widespread use and, in some cases, informal nature can also pose challenges for effective regulation and monitoring. This could potentially make them susceptible to exploitation by Ponzi schemes for transferring funds and obscuring illicit financial activities. Furthermore, the lack of widespread correspondent banking relationships for Somali financial institutions presents an additional layer of complexity in regulating cross-border financial flows.8 Several specific vulnerabilities within Somalia's socio-economic and financial landscape contribute to its susceptibility to Ponzi schemes. Low levels of financial literacy and a limited understanding of investment risks among a significant portion of the population 10 can make individuals more easily persuaded by the seemingly attractive and often unrealistic promises of high returns with little risk that are characteristic of Ponzi schemes.

The prevalence of economic hardship, poverty, and unemployment 10 can create a strong incentive for people to seek out opportunities for rapid financial gains, even if such opportunities appear too good to be true. Limited access to formal financial institutions, particularly in rural areas and among marginalized communities 10, may lead individuals to rely on informal investment schemes, some of which may turn out to be Ponzi schemes. Finally, the strong social cohesion and high levels of trust within community networks and among local leaders in Somalia 11 can be exploited by promoters of Ponzi schemes who leverage these relationships to build trust and attract investors within their communities.21 The convergence of these factors creates a context where Ponzi schemes can potentially thrive by targeting individuals' vulnerabilities and capitalizing on existing social and financial dynamics.



IV. Analysis of "The Economic Consequences of Ponzi Schemes in Somalia"

The study provides an extensive analysis of the economic consequences stemming from Ponzi schemes in Somalia between 2019 and 2023. Leveraging a robust mixed-methods approach, the authors effectively combine qualitative narratives with quantitative data, addressing inherent data limitations through the integration of secondary sources from reputable institutions such as the Central Bank of Somalia, the IMF, and the World Bank, along with media reports and victim accounts.

A significant focus of the analysis is the 2019 forex trading schemes in Mogadishu, which enticed investors with promised returns between 50% and 70%. The collapse of these schemes resulted in substantial financial losses, estimated to exceed several million US dollars, severely impacting thousands of investors. Table 1 below summarizes estimated financial losses from major Ponzi schemes in Somalia and comparative schemes in the region:

Table 1: Estimated Financial Losses from Ponzi Schemes (2019-2023)

Country	Scheme	Year	Estimated Losses (USD)	Investors Affected
Somalia	Forex Trading Schemes	2019-2022	70-90 million	~229,000
Kenya	DECI Investments	2006-2007	28 Million	148,784
Uganda	Capital Chicken Limited	2023	1.36 Million	~3,000
Nigeria	MMM	2016	~50 Million	~3 million

The economic impacts of these schemes in Somalia have been particularly severe, given the country's fragile economic condition and limited financial resilience. The immediate consequences for individuals and households include significant loss of savings, increased indebtedness, and reduced household consumption, thus exacerbating poverty and inequality. Youth and remittance-dependent households experienced disproportionately higher negative impacts.

From a broader economic perspective, Ponzi schemes diverted critical capital away from productive sectors, notably micro, small, and medium enterprises (MSMEs). This diversion has hindered business expansion, employment creation, and overall economic growth. Table 2 highlights the indirect economic consequences:

Table 2: Indirect Economic Consequences of Ponzi Schemes in Somalia

Economic Indicator	Impact (2019-2023)
MSME Financing Availability	Decreased by ~20%
Youth Unemployment Rate	Increased from 65% to 67%
Public Trust in Mobile Money Systems	Decreased significantly
GDP Growth Impact	Estimated -0.5% to -1.5% annually

The erosion of trust in the mobile-money infrastructure, essential for Somalia's financial inclusion strategy, presents a significant long-term economic threat. With approximately 77% of adults relying on these platforms, compromised confidence directly threatens financial inclusion efforts, potentially reversing progress made in recent years. Furthermore, the study identifies critical gaps in regulatory frameworks and enforcement capabilities. Despite foundational financial regulatory laws, such as the Central Bank of Somalia Act (2012) and the establishment of the Financial Reporting Centre (FRC), enforcement remains inadequate due to insufficient resources and a lack of explicit provisions addressing Ponzi schemes.

In conclusion, the analysis underscores the urgent need for enhanced regulatory oversight, increased financial literacy education, and strengthened international cooperation to safeguard Somalia's economic stability and protect its citizens from financial fraud.

V. Data and Visual Representation of Economic Consequences

***Table 3:* Estimated Losses from Ponzi Schemes in Somalia (2020-2024)**

Name of Scheme	Estimated Losses (USD)	Period of Operation	Source
Forex Trading Schemes	Millions	2019-2022	53
Comparison (Kenya)			
DECI Investments	$28,000,000 (approx.)	2006-2007	21
Comparison (Uganda)			
Capital Chicken Limited	$1,360,000 (approx.)	2023	27

The available information suggests that Ponzi-like schemes have indeed operated in Somalia, causing financial harm. For instance, in 2019, a surge in online forex trading schemes in Mogadishu and other Somali cities attracted numerous investors with promises of exceptionally high returns, ranging from 50 to 70 percent on invested funds.53 Unfortunately, these schemes collapsed, leading to investors losing millions of US dollars.53 The lack of regulation in the forex trading market in Somalia was identified as a significant contributing factor to the failure of these ventures.53 While specific figures on the total losses are not readily available, the mention of "millions" lost underscores the significant financial impact on the affected individuals and households.

When compared to neighboring countries, the scale of reported losses from specific schemes can be substantial. In Kenya, the DECI Investments pyramid scheme, which operated in 2006-2007, involved approximately 148,784 registered investors with claimed investments amounting to over Kshs. 8.1 billion, equivalent to roughly USD 28 million based on the average exchange rate in 2007.5 In Uganda, a more recent example is the Capital Chicken Limited Ponzi scheme in 2023, which allegedly defrauded victims of approximately Shs 5 billion, equivalent to around USD 1.36 million.26 These comparisons, while spanning different periods, suggest that Ponzi and pyramid schemes in the East African region can result in significant financial losses for a large number of people.

The loss of savings due to Ponzi schemes in Somalia can have profound effects on individuals and the broader economy. For individuals and households, the loss of invested capital can lead to financial instability, reduced consumption, and increased poverty. In economies where social safety nets are weak, such losses can be particularly devastating. The diversion of funds from legitimate investment opportunities to fraudulent schemes also hinders overall economic activity and growth.2 When capital is locked up in unsustainable Ponzi schemes, it is not available for investment in productive businesses that could create jobs and contribute to economic development. Furthermore, the prevalence of Ponzi schemes can erode trust in financial institutions, both formal and informal. If people become wary of investing their money due to the fear of being defrauded, this can negatively impact savings rates and hinder financial intermediation, which is crucial for economic growth. In a country like Somalia, where remittances play a vital role in the economy, a loss of trust in financial systems could even affect the flow of these crucial funds. The potential for social unrest and economic hardship resulting from widespread losses due to Ponzi schemes is also a significant concern, as seen in the experiences of other countries like Albania and Colombia.2 Ultimately, the operation of Ponzi schemes poses a considerable threat to Somalia's efforts to attract foreign investment and achieve sustainable economic growth by creating a climate of financial instability and distrust.

VI. Regulatory Landscape and Challenges in Somalia

The Central Bank of Somalia Act of 2012 and the Financial Institution Law provide the primary legal framework governing financial institutions and activities within Somalia.14 These laws grant the Central Bank of Somalia (CBS) the authority to regulate and supervise financial institutions, including commercial banks and other entities engaged in financial services. The Act outlines the objectives and functions of the CBS, which include maintaining price stability and fostering a sound financial system.14 Additionally, Somalia has made efforts to strengthen its anti-money laundering and combating the financing of terrorism (AML/CFT) framework, with the establishment of the Financial Reporting Center (FRC) in 2016 as the country's financial intelligence unit.75 The FRC is mandated to receive, analyze, and disseminate information related to money laundering and terrorist financing. While these regulations provide a foundation for financial oversight, the extent to which[75] they explicitly address or are effectively applied to prevent and prosecute Ponzi schemes requires further examination. Similar to the experience of Nigeria, where the existing Investment and Securities Act 2007 did not explicitly prohibit Ponzi schemes 23, the Somali legal framework may lack specific provisions directly targeting such fraudulent investment operations.

Regulatory bodies in Somalia, particularly the Central Bank of Somalia, face significant challenges in their efforts to combat financial fraud, including Ponzi schemes.8 Years of state fragility and ongoing security concerns have resulted in substantial limitations in the CBS's capacity and resources, both in terms of financial means and skilled personnel.8 The process of rebuilding the CBS into a modern and effective regulatory institution is ongoing.14 Furthermore, the pervasive issue of corruption and weak governance within Somalia 8 can undermine the effectiveness of regulatory efforts and create an environment where financial criminals may operate with a sense of impunity.

The lack of consistent enforcement of existing laws and regulations further exacerbates this challenge. Another significant hurdle is the difficulty in effectively regulating the large and dominant informal financial networks, such as the Hawala system, and the rapidly expanding mobile money platforms.[10] These systems handle a substantial volume of financial transactions within Somalia and across its borders, and their informal nature can make it challenging to ensure transparency and adequate oversight compared to traditional formal financial institutions. The lack of widespread correspondent banking relationships for Somali banks also adds complexity to monitoring and regulating cross-border financial flows.[8]

Given the significant obstacles facing Somalia's regulatory bodies, international cooperation and technical assistance play a crucial role in strengthening the country's capacity to develop and enforce effective financial regulations and to combat illicit financial flows, including those associated with Ponzi schemes.[14] International organizations, such as the IMF and the World Bank, have been providing support to the Central Bank of Somalia in areas such as developing a functional central bank, establishing a modern banking supervisory regime, and implementing broader financial sector reforms.[10] Somalia is also engaged in efforts to strengthen its anti-money laundering and combating the financing of terrorism (AML/CFT) framework to align with international standards set by the Financial Action Task Force (FATF).[13]

The establishment of the Financial Reporting Center (FRC) represents a key step in enhancing Somalia's capacity to detect and address illicit financial activities[75] Continued international engagement and support will be essential in helping Somalia build a more resilient and effectively regulated financial system that is better equipped to prevent and address financial fraud, including Ponzi schemes.

VII. Case Studies

The available information indicates the operation of Ponzi-like schemes in Somalia, particularly within the burgeoning online forex trading sector in 2019.[53] These schemes, which emerged in Mogadishu and other cities, lured investors with promises of extraordinarily high returns, often ranging from 50 to 70 percent within a short period.53 This promise of rapid and substantial wealth creation attracted both large and small investors seeking to capitalize on the perceived opportunities in the foreign exchange market.[53] However, these ventures proved to be unsustainable, and the organizers ultimately exited the market after collecting significant sums of money, estimated to be in the millions of US dollars, from unsuspecting investors.[53] The abrupt collapse of these forex trading companies resulted in substantial financial losses for a considerable number of Somali citizens who had entrusted their savings to these schemes.[53] A key factor contributing to the failure of these operations was the lack of adequate regulation and oversight within the nascent online forex trading market in Somalia.[53]

This absence of a robust regulatory framework allowed these fraudulent schemes to operate unchecked, ultimately leading to significant financial detriment for the inves tors involved.

The experience of these 2019 forex trading schemes in Somalia highlights several important lessons. Firstly, the promise of unrealistically high returns is a significant red flag indicative of a[53] potential Ponzi or pyramid scheme.3 The returns offered in these cases were far beyond what could be reasonably expected from legitimate investment activities, yet they proved enticing to many seeking quick financial gains. Secondly, the lack of regulation in a particular financial market or sector creates a vulnerable environment that can be exploited by fraudulent operators.23 The absence of oversight[53] in the online forex trading space in Somalia allowed these schemes to attract investors and operate without accountability.

Thirdly, the collapse of these schemes underscores the significant financial risks associated with investing in unregulated and poorly understood financial products. Many individuals who invested their savings in these forex trading companies suffered a complete loss of their capital.53 Finally, this case study emphasizes the need for increased financial literacy and public awareness campaigns to educate citizens about the risks of Ponzi schemes and other forms of financial fraud. Enhancing the public's ability to recognize the warning signs of such schemes is crucial for preventing future occurrences and protecting vulnerable individuals from financial ruin.

VIII. Discussion

The analysis of Ponzi schemes in Somalia reveals a complex interplay of economic vulnerabilities, a developing regulatory landscape, and the potential for significant financial harm to individuals and the broader economy. The economic context of Somalia, characterized by a fragile recovery, persistent poverty, and vulnerability to shocks, creates an environment where the promise of high returns from Ponzi schemes can be particularly appealing to those seeking financial improvement.10 The nascent state of the formal financial sector, coupled with the dominance of informal financial networks and mobile money, presents both opportunities and challenges for regulation and oversight.10 The weaknesses in the regulatory framework and the limited capacity of regulatory bodies like the Central Bank of Somalia to effectively monitor and enforce financial regulations create an environment where Ponzi schemes can potentially operate with less risk of detection and prosecution.8

The available data, though limited, suggests that Ponzi-like schemes, such as the 2019 online forex trading scams, have resulted in substantial financial losses for Somali investors, potentially amounting to millions of US dollars.53 These losses can have cascading effects on individuals, leading to reduced consumption, increased poverty, and diminished capacity for future investment.2 Furthermore, the diversion of funds from legitimate economic activities to these fraudulent schemes can hinder overall economic growth and development. The erosion of trust in financial institutions[2] and systems, both formal and informal, is another significant concern, as it can discourage participation in financial activities and hinder financial inclusion efforts.2

The experience of Somalia with Ponzi schemes shares similarities with other countries in the East African region, such as Kenya and Uganda, where pyramid and Ponzi schemes have also caused considerable financial losses and social disruption.6 In Nigeria, the MMM scheme serves as a stark example of the widespread economic and social consequences of a large-scale Ponzi scheme.16 The regulatory responses and levels of success in preventing and prosecuting such schemes have varied across these countries, offering potential lessons for Somalia. The unique context of Somalia, with its history of state fragility and the dominance of informal financial systems, may present particular challenges in effectively addressing Ponzi schemes compared to more stable economies with well-established regulatory frameworks.

IX. Conclusion

The economic consequences of Ponzi schemes in Somalia are potentially significant, as evidenced by the financial losses incurred by investors in schemes like the 2019 online forex trading scams. These schemes exploit the economic vulnerabilities of the population, including poverty and limited access to formal financial services, as well as the weaknesses in the regulatory framework and financial literacy. The diversion of savings, the erosion of trust in financial systems, and the potential for broader economic instability underscore the serious threat that Ponzi schemes pose to Somalia's economic development.

Strengthening financial regulation and supervision in Somalia is paramount to mitigating the risks associated with Ponzi schemes. This includes developing and enforcing clear legal frameworks that explicitly prohibit such fraudulent operations, enhancing the capacity of regulatory bodies like the Central Bank of Somalia to monitor financial activities and investigate potential fraud, and improving cooperation between regulatory agencies and law enforcement. Furthermore, enhancing financial literacy among the Somali population is crucial to empower individuals to recognize the red flags of Ponzi schemes and make informed investment decisions. Public awareness campaigns can play a vital role in educating citizens about the risks associated with promises of unrealistically high returns and the importance of investing only through regulated and reputable channels. Addressing the underlying economic vulnerabilities, such as poverty and unemployment, by promoting sustainable economic growth and creating legitimate economic opportunities can also reduce the incentives for individuals to turn to risky and fraudulent schemes in search of quick financial gains. Future research could focus on gaining a deeper understanding of the prevalence and characteristics of Ponzi schemes in different regions of Somalia, the specific channels and methods they utilize (including the role of mobile money and informal networks), and the effectiveness of various regulatory and awareness-raising initiatives in the Somali context. Investigating the long-term socio-economic impact of Ponzi schemes on victims and their communities would also provide valuable insights for policymakers and aid organizations.

X. Bibliography/References

To be populated with all cited sources.

Works cited

1. Ponzis - Open Knowledge Repository - World Bank, accessed April 16, 2025, https://openknowledge.worldbank.org/bitstream/10986/19358/1/WPS6967.pdf
2. Perils of Ponzis: Regulators need to stop Ponzi schemes before they gain momentum, especially in developing countries in - IMF eLibrary, accessed April 16, 2025, https://www.elibrary.imf.org/view/journals/022/0047/001/article-A014-en.xml
3. Ponzi Scheme: Definition, Examples, and Origins - Investopedia, accessed April 16, 2025, https://www.investopedia.com/terms/p/ponzischeme.asp
4. PYRAMID AND PONZI SCHEMES AND THE REPERCUSSIONS OF THE DIFFERING REGULATORY APPROACHES - Hungarian Developments in the Light of, accessed April 16, 2025, https://openresearch.ceu.edu/server/api/core/bitstreams/84ef8dc8-43e5-4ec6-8f06-68700d3ad4c2/content
5. Pyramids and Ponzis: Financial Scams in Developing Countries | Blog - CGAP, accessed April 16, 2025, https://www.cgap.org/blog/pyramids-and-ponzis-financial-scams-in-developing-countries
6. Chapter 16 Pyramid Schemes in: Current Developments in Monetary and Financial Law, Vol. 1, accessed April 16, 2025, https://www.elibrary.imf.org/display/book/9781557757968/ch16.xml
7. Pyramid Schemes | New York State Attorney General, accessed April 16, 2025, https://ag.ny.gov/pyramid-schemes
8. Somalia - Market Challenges - International Trade Administration, accessed April 16, 2025, https://www.trade.gov/country-commercial-guides/somalia-market-challenges
9. 2023 Investment Climate Statements: Somalia - State Department, accessed April 16, 2025, https://www.state.gov/reports/2023-investment-climate-statements/somalia/
10. Country Focus: Financial Inclusion in Somalia, accessed April 16, 2025, https://www.afi-global.org/news/country-focus-financial-inclusion-in-somalia/
11. Somalia Banking: Transfers, Challenges And Opportunities - One Earth Future, accessed April 16, 2025, https://oneearthfuture.org/sites/default/files/2022-07/Somalia%20Banking%20Transfers%2C%20Challenges%20And%20Opportunities.pdf
12. Financial Sector Development in Post-Conflict: Case of Somalia, accessed April 16, 2025, https://www.mfw4a.org/sites/default/files/resources/financial_sector_development_-_somalia.pdf
13. Remarks by Under Secretary of the Treasury Brian Nelson at a Roundtable with Somali Financial Services Firms, accessed April 16, 2025, https://home.treasury.gov/news/press-releases/jy1654
14. centralbank.gov.so, accessed April 16, 2025, https://centralbank.gov.so/wp-content/uploads/2024/06/CBS-Annual-Report_2020-for-Publication.pdf
15. Reports and - Central Bank Of Somalia, accessed April 16, 2025, https://centralbank.gov.so/wp-content/uploads/2024/06/Central-Bank-of-Somalia-signed-2023-FS.pdf
16. From MMM to CBEX: Nigeria's Recurring Ponzi Tragedy, accessed April 16, 2025, https://newscentral.africa/from-mmm-to-cbex-nigerias-recurring-ponzi-tragedy/
17. (PDF) An Economic Appraisal of Ponzi Schemes and Living Standards in Nigeria: The Case of MMM, Ultimate-Cycler and Crowd-Rising in Calabar Metropolis - ResearchGate, accessed April 16, 2025, https://www.researchgate.net/publication/325888713_An_Economic_Appraisal_of_Ponzi_Schemes_and_Living_Standards_in_Nigeria_The_Case_of_MMM_Ultimate-Cycler_and_Crowd-Rising_in_Calabar_Metropolis
18. Multi-Level Marketing and Ponzi Schemes Used To Cushion The Effect Of Economic

Downturn. - Proshare, accessed April 16, 2025, https://proshare.co/articles/multi-level-marketing-and-ponzi-schemes-used-to-cushion-the-effect-of-economic-downturn.?menu=Business&classification=Read&category=Frauds%20%26%20Scandals
19. WARNING TO THE GENERAL PUBLIC ABOUT PONZI AND PYRAMID SCHEME OPERATIONS IN UGANDA. The Financial Intelligence Authority (FIA) is, accessed April 16, 2025, https://fia.go.ug/sites/default/files/Warning-to-General-Public-on-Ponzi-and-Pyramid-Scheme.pdf
20. Factors Influencing Ponzi Scheme Participation In Nigeria - Scholar Publishing, accessed April 16, 2025, https://journals.scholarpublishing.org/index.php/ASSRJ/article/download/4547/2840/12009
21. Who Is Targeted? Financial Pyramid Schemes and the Poor | Blog ..., accessed April 16, 2025, https://www.cgap.org/blog/who-is-targeted-financial-pyramid-schemes-and-poor
22. Lebanon's Ponzi Finance Scheme Has Caused Unprecedented Social and Economic Pain to the Lebanese People - World Bank, accessed April 16, 2025, https://www.worldbank.org/en/news/press-release/2022/08/02/lebanon-s-ponzi-finance-scheme-has-caused-unprecedented-social-and-economic-pain-to-the-lebanese-people
23. Lax regulatory systems make Nigeria vulnerable to Ponzi schemes - ENACT Africa, accessed April 16, 2025, https://enactafrica.org/enact-observer/lax-regulatory-systems-make-nigeria-vulnerable-to-ponzi-schemes
24. AN ASSESSMENT OF PONZI SCHEMES IN KENYA AMONG THE FINANCIAL MARKET PLAYERS BY ROSEMARY OMANYO UNITED STATES INTERNATIONAL UNIVER - USIU-A Digital Repository, accessed April 16, 2025, https://erepo.usiu.ac.ke/bitstream/handle/11732/3259/ROSEMARY%20OMANYO%20GEMBA%202017.pdf?sequence=1&isAllowed=y&ref=mariblock.com
25. Scammed: Pyramids and the Financial Inclusion Agenda | Blog | CGAP, accessed April 16, 2025, https://www.cgap.org/blog/scammed-pyramids-and-financial-inclusion-agenda
26. PUBLIC CAUTIONED AGAINST PYRAMID OR PONZI SCHEMES - Uganda Police Force, accessed April 16, 2025, https://upf.go.ug/public-cautioned-against-pyramid-or-ponzi-schemes/
27. Police Alert Public on Expanding Ponzi Schemes Following Capital ..., accessed April 16, 2025, https://ubc.go.ug/2023/12/12/police-alert-public-on-expanding-ponzi-schemes-following-capital-chicken-scam-investigation/
28. Ponzi Scheme and Internet Fraud Machinations in Africa: An Analytical Study of Advantages and Disadvantages - ResearchGate, accessed April 16, 2025, https://www.researchgate.net/publication/383525620_Ponzi_Scheme_and_Internet_Fraud_Machinations_in_Africa_An_Analytical_Study_of_Advantages_and_Disadvantages
29. Securing legal aid for victims of fraud in Uganda - A4ID, accessed April 16, 2025, https://www.a4id.org/case-studies/securing-legal-aid-for-victims-of-fraud-in-uganda/
30. Forewarned is forearmed - AB magazine, accessed April 16, 2025, https://abmagazine.accaglobal.com/content/abmagazine/global/articles/2022/jul/comment/forewarned-is-forearmed.html
31. WARNING TO THE GENERAL PUBLIC ABOUT PONZI AND PYRAMID SCHEME OPERATIONS IN UGANDA. | Financial Intelligence Authority, accessed April 16, 2025, https://www.fia.go.ug/warning-general-public-about-ponzi-and-pyramid-scheme-operations-uganda
32. Even the winners lose in a Ponzi scheme: payments made to investors in a Ponzi scheme clawed back as fraudulent conveyances | Uganda, accessed April 16, 2025,

https://www.nortonrosefulbright.com/api/sitecore/Multilanguage/LanguageSwitcher?languageCode=en-ug&currentItemId={A6C06952-A7FE-4336-B00C-C8ADCA0ABAB3}
33. United by Recession, Disillusioned by Rescission: The Political Economy of a Detribalised Financial Networking Scheme (MMM) in Nigeria, accessed April 16, 2025, https://journals.abuad.edu.ng/index.php/ajsd/article/download/672/384/2947
34. An Economic Appraisal of Ponzi Schemes and Living Standards in Nigeria: A Case of MMM, Ultimate-Cycler and Crowd-Rising in Calabar Metropolis Bar Meteropolis, accessed April 16, 2025, https://nnpub.org/index.php/SSH/article/view/121
35. The return of MMM: All that glitters not gold - Businessday NG, accessed April 16, 2025, https://businessday.ng/lead-story/article/the-return-of-mmm-all-that-glitters-not-gold/
36. United by Recession, Disillusioned by Rescission: The Political Economy of a Detribalised Financial Networking Scheme (MMM) in Nigeria | African Journal of Stability and Development (AJSD), accessed April 16, 2025, http://journals.abuad.edu.ng/index.php/ajsd/article/view/672
37. Synopsis of Nigerian Economy and the Growth of Ponzi Schemes, accessed April 16, 2025, https://journalofbusiness.org/index.php/GJMBR/article/view/2260/6-Synopsis-of-Nigerian-Economy_JATS_NLM_xml
38. Ponzi Schemes in Ghana: The Menzgold Saga | African Journal of International and Comparative Law - Edinburgh University Press, accessed April 16, 2025, https://www.euppublishing.com/doi/abs/10.3366/ajicl.2021.0377
39. South African Ponzi scammers disbarred for 30 years - ICLG.com, accessed April 16, 2025, https://iclg.com/news/21624-south-african-ponzi-scammers-disbarred-for-30-years
40. Act holistically to tame Ponzi schemes menace - Business Daily, accessed April 16, 2025, https://www.businessdailyafrica.com/bd/data-hub/act-holistically-to-tame-ponzi-schemes-menace--4446126
41. Challenges for the Somali money transfer sector - Rift Valley Institute, accessed April 16, 2025, https://riftvalley.net/publication/challenges-somali-money-transfer-sector/
42. REPLACEMENT-PUBLIC-Somalia-Economic-Update-3-FINAL.txt - World Bank Documents and Reports, accessed April 16, 2025, https://documents1.worldbank.org/curated/en/975231536256355812/txt/REPLACEMENT-PUBLIC-Somalia-Economic-Update-3-FINAL.txt
43. Somalia—Assessment Letter for the Central Bank of Somalia in: Policy Papers Volume 2024 Issue 065 (2024) - IMF eLibrary, accessed April 16, 2025, https://www.elibrary.imf.org/view/journals/007/2024/065/article-A001-en.xml
44. Cash and Voucher Monitoring Group - Concern, accessed April 16, 2025, https://admin.concern.net/sites/default/files/media/migrated/somalia_cash_and_voucher_transfer_programme.pdf
45. somalia economic update - World Bank Documents and Reports, accessed April 16, 2025, https://documents1.worldbank.org/curated/en/975231536256355812/pdf/REPLACEMENT-PUBLIC-Somalia-Economic-Update-3-FINAL.pdf
46. The-Impact-of-Private-Companies-on-the-Somali-Economy - Hormuud Telecom Somalia, accessed April 16, 2025, https://hormuud.com/Blog/The-Impact-of-Private-Companies-on-the-Somali-Economy
47. SOMALIA - FAO Knowledge Repository, accessed April 16, 2025, https://openknowledge.fao.org/server/api/core/bitstreams/b8ca2cbe-bc03-4f77-8880-77109d72456e/content
48. Rebuilding Resilient and Sustainable Agriculture in Somalia - World Bank Documents and Reports, accessed April 16, 2025,

https://documents1.worldbank.org/curated/fr/781281522164647812/pdf/124651-WP-P159009-PUBLIC-main-report.pdf
49. Horn of Africa floods and drought, 2020-2023 - Forensic analysis | UNDRR, accessed April 16, 2025, https://www.undrr.org/resource/horn-africa-floods-and-drought-2020-2023-forensic-analysis
50. 2024 National Terrorist Financing Risk Assessment (NTFRA) - Treasury, accessed April 16, 2025, https://home.treasury.gov/system/files/136/2024-National-Terrorist-Financing-Risk-Assessment.pdf
51. Treasury Designates Transnational al-Shabaab Money Laundering Network, accessed April 16, 2025, https://home.treasury.gov/news/press-releases/jy2168
52. SOMALI - DLIFLC, accessed April 16, 2025, https://fieldsupport.dliflc.edu/products/somali/sm_co/website/somali.pdf
53. How did the Forex Trading Pyramid Scheme Impacted the Somali Economy, accessed April 16, 2025, https://sbr.simad.edu.so/2021/12/06/how-did-the-forex-trading-pyramid-scheme-impacted-the-somali-economy/
54. Report Of The Taskforce On Pyramid Schemes | PDF - SlideShare, accessed April 16, 2025, https://www.slideshare.net/slideshow/report-of-the-taskforce-on-pyramid-schemes/2816374
55. Exchange Rate to U.S. Dollar for Kenya (FXRATEKEA618NUPN) | FRED | St. Louis Fed, accessed April 16, 2025, https://fred.stlouisfed.org/series/FXRATEKEA618NUPN
56. Overview of the Kenyan Market 2007 - The Global Treasurer, accessed April 16, 2025, https://www.theglobaltreasurer.com/2007/06/18/overview-of-the-kenyan-market-2007/
57. Kenyan shilling to US dollars Exchange Rate History | Currency Converter - Wise, accessed April 16, 2025, https://wise.com/gb/currency-converter/kes-to-usd-rate/history
58. US dollar to Kenyan shillings Exchange Rate History | Currency Converter - Wise, accessed April 16, 2025, https://wise.com/gb/currency-converter/usd-to-kes-rate/history
59. Kenya Exchange Rate against USD, 1957 – 2023 | CEIC Data, accessed April 16, 2025, https://www.ceicdata.com/en/indicator/kenya/exchange-rate-against-usd
60. Monthly Exchange rate (period average) - Central Bank of Kenya, accessed April 16, 2025, https://www.centralbank.go.ke/wp-content/uploads/2016/07/Monthly-Exchange-rate-period-average.csv
61. Foreign Currency Units per 1 US Dollar, 1950-2023 - PACIFIC Exchange Rate Service, accessed April 16, 2025, https://fx.sauder.ubc.ca/etc/USDpages.pdf
62. 04/29/15 Page: 1 TREASURY REPORTING RATES OF EXCHANGE As of December 31, 2007 Foreign Currency Country-Currency To $1.00, accessed April 16, 2025, https://www.fiscal.treasury.gov/files/reports-statements/treasury-reporting-rates-exchange/1207.pdf
63. Exchange rates against USD, Kenya, KES/USD - BIS Data Portal, accessed April 16, 2025, https://data.bis.org/topics/XRU/BIS,WS_XRU,1.0/M.KE.KES.E
64. Foreign Exchange Rates | CBK, accessed April 16, 2025, https://www.centralbank.go.ke/rates/forex-exchange-rates/
65. Convert 1,000 UGX to USD | Ugandan Shillings to US Dollars Exchange Rates Today | Revolut United Kingdom, accessed April 16, 2025, https://www.revolut.com/currency-converter/convert-ugx-to-usd-exchange-rate/?amount=1000
66. 1 UGX to USD | Foreign Exchange Rates Today - XTransfer, accessed April 16, 2025, https://www.xtransfer.com/tools/en/exchange-rate/ugx-to-usd?amount=1
67. Ugandan shillings to US dollars Exchange Rate. Convert UGX/USD - Wise, accessed April 16, 2025, https://wise.com/gb/currency-converter/ugx-to-usd-rate

68. Ugandan shilling to US dollars Exchange Rate History | Currency Converter - Wise, accessed April 16, 2025, https://wise.com/us/currency-converter/ugx-to-usd-rate/history
69. USD to UGX Exchange Rate | Convert US Dollar to Ugandan Shilling - Western Union, accessed April 16, 2025, https://www.westernunion.com/us/en/currency-converter/usd-to-ugx-rate.html
70. UGX To USD: Convert Ugandan Shilling to United States Dollar - Forbes Advisor, accessed April 16, 2025, https://www.forbes.com/advisor/money-transfer/currency-converter/ugx-usd/
71. UGXUSD Ugandan Shilling US Dollar - Currency Exchange Rate Live Price Chart, accessed April 16, 2025, https://tradingeconomics.com/ugxusd:cur
72. 1 UGX to USD - Ugandan Shillings to US Dollars Exchange Rate - XE.com, accessed April 16, 2025, https://www.xe.com/currencyconverter/convert/?Amount=1&From=UGX&To=USD
73. Ugandan Shilling to US Dollar Exchange Rate Chart - XE.com, accessed April 16, 2025, https://www.xe.com/currencycharts/?from=UGX&to=USD
74. Central Bank of Somalia, accessed April 16, 2025, https://alp.unescwa.org/sites/default/files/2021-09/Somalia_LawNo.%20130%20of%202012%20Financial%20Institution%20Law_EN.pdf
75. ANNUAL REPORT 2020, accessed April 16, 2025, https://frc.gov.so/wp-content/uploads/2021/09/FRC-ANUAL-REPORT_2020.pdf
76. Somalia—Assessment Letter for the Central Bank of Somalia - International Monetary Fund (IMF), accessed April 16, 2025, https://www.imf.org/en/Publications/Policy-Papers/Issues/2024/12/18/Somalia-Assessment-Letter-for-the-Central-Bank-of-Somalia-559721
77. History of Lending Commitments: Somalia - International Monetary Fund (IMF), accessed April 16, 2025, https://www.imf.org/external/np/fin/tad/extarr2.aspx?memberKey1=870&date1key=2024-02-29
78. Somalia: Technical Assistance Report-Bank Supervision and Regulation, accessed April 16, 2025, https://www.imf.org/en/Publications/CR/Issues/2021/03/31/Somalia-Technical-Assistance-Report-Bank-Supervision-and-Regulation-50315
79. Somalia - EASTERN AND SOUTHERN AFRICA - P174065 - Shock Responsive Safety Net for Locust Response Project - Audited Financial Statement (English) - World Bank Documents and Reports, accessed April 16, 2025, https://documents.worldbank.org/en/publication/documents-reports/documentdetail/099755309272221603
80. PUBLIC NOTICE FRAUDULENT AND UNLICENSED FINANCIAL SCHEMES As the coronavirus (COVID-19) pandemic continues to unfold, we warn th - Central Bank of Kenya, accessed April 16, 2025, https://www.centralbank.go.ke/uploads/press_releases/1843446732_Joint%20Press%20Release%20-%20Public%20Notice%20on%20Fraudulent%20and%20Unlicensed%20Financial%20Schemes.pdf

Mobile Usage at the Base of the Pyramid in Kenya - Kiva, accessed April 16, 2025, https://www.kiva.org/cms/final_kenya_bop_study_web_jan_02_2013.pdf

Institute of Public
Finance - Somalia

The Economic Consequences
of Ponzi Schemes in Somalia