LEGAL LOOPHOLES IN PYRAMID AND PONZI SCHEME REGULATIONS: A CAUTIONARY TALE FROM ALBANIA TO INDONESIA

Beny SAPUTRA[1]

SJD (Ph.D.) Candidate of Global Business Law and Regulation, Dept. of Legal Studies, Central European University (CEU), Vienna, Austria
E-mail: saputra_beny@phd.ceu.edu

Abstract

This paper examines the legal loopholes and regulatory measures taken in response to pyramid and Ponzi schemes, specifically analyzing the lessons learned from Albania's financial crisis in the 1990s and what insights Indonesia can learn. The collapse of these schemes in Albania, which had a catastrophic effect on the economy and triggered an entire social and political crisis, exposed significant measures in governance negligence, financial supervision, legal frameworks, and understanding of investments. Through an in-depth examination of the Albanian catastrophe experience, this paper examines the legal framework in terms of inadequate regulations, government negligence due to lack of experience handling Ponzi and pyramid scheme issues, and lack of investment literacy. The paper explores how Indonesia can enhance its legal and regulatory environment by drawing lessons from Albania's mistakes in the past. Suggestions involve strengthening financial authority roles, establishing specific regulations to regulate pyramid and Ponzi schemes, and providing comprehensive investment literacy education for investors. This study highlights the significance of legislative reform and efficient governance to prevent financial schemes that take advantage of legal loopholes and uneducated investors, ultimately leading to a more resilient and stable financial system. By examining Albania's experience, Indonesia may establish a proactive strategy

[1] ORCID https://orcid.org/0009-0000-3946-3748

to protect its citizens and economy from the dangers of pyramid and Ponzi schemes.

Keywords: *Albania, Financial Fraud, Indonesia, Legal Challenges, Pyramid Scheme, Ponzi Scheme.*

1. Introduction

Pyramid and Ponzi schemes are the fraudulent chameleons of finance (Tajti, 2020b). It's become an enormous threat to the regulated financial markets as they continue to exist due to deceitful tactics that take advantage of investors' trust. Both schemes depend on an ongoing inflow of new participants to provide returns to earlier investors; both Ponzi and pyramid schemes are economically unsustainable. Understanding why these schemes eventually fail is mostly dependent on the collapse model. Schemes collapse when the number of new members shrinks and/or the organizers disappear with the money, or a crisis comes when the organizer keeps the money of potential newcomers to survive the situation instead of investing it in the schemes, this happened with Ex. Chairman of the Nasdaq, Bernie Madoff, falling due to the credit crunch in 2008 (Tajti, 2022). These fraudulent schemes, which are distinguished by unsustainable business models that depend on the recruitment of fresh investors to maintain payments to initial participants, or what is called "rob Peter to pay Paul" (Campos, 2009), present substantial hazards to both financial integrity and economic stability.

Their unregulated evolution across several sectors and jurisdictions highlights the difficulties that lawmakers and investors face in reducing their impact on society (Čunderlík, 2021). The failure of such schemes can cause extensive economic instability, gradually eroding investor trust and contributing to significant financial losses (Krige, 2012). It can also cause social turmoil and political instability, like in Albania in the early 1990s. Therefore, it is crucial to make collaborative and determined efforts to strengthen regulatory frameworks, increase investor knowledge, and promote international cooperation to prevent the spread of these dangerous schemes and safeguard financial markets from their disruptive repercussions.

Indonesia has witnessed a concerning increase in pyramid and Ponzi schemes in recent years (Nurzakiah & Wasis, 2024), mirroring a wider worldwide pattern of financial fraud. Despite the implementation of regulations and public awareness campaigns,[2] these fraudulent schemes have continued to

[2] Since 2021, the Indonesian Financial Service Authority (OJK) actively campaigned to educate Indonesian citizens to be aware of the Pyramid and Ponzi scheme as the case

grow rapidly, taking advantage of socio-economic weaknesses and the rapid rise of digital financial platforms. Many Indonesians, attracted by the prospect of big profits and easy money with no risk, have become victims of these fraudulent schemes, leading to substantial financial losses for individuals and organizations. Recent studies highlight the persistent issue of Ponzi and pyramid schemes in Indonesia, causing significant financial losses. These fraudulent practices often exploit legal ambiguities and public confusion, with some schemes disguising themselves as crypto investments or robot trading (Anggriawan et al., 2023).

The absence of laws specifically regulating pyramid and Ponzi schemes, coupled with the government's negligence for this phenomenon, has created a pyramid and Ponzi scheme that flourished in Indonesia. Contributing factors included raising the early investor with substantial idle capital to invest, the influence of the greed factor to gain instant big profit, and widespread lack of investment literacy. These social, economic, and legal environmental conditions mirror the situation of Albania in the mid-90s. The convergence of these factors in Indonesia can cause catastrophic problems in the financial industry that lead to a social-political crisis in the country. Government ignorance will contribute to the enormous problem in the future, as the phenomenon of the pyramid and Ponzi schemes are a ticking time bomb that can be exploded anytime. The harrowing experience of Albania in the mid-90s with their famous historical and social conflict due to ignorance of the government for the pyramid and Ponzi scheme phenomena serves as a critical warning.

As a popular phrase in Indonesia states, *"Jasmerah (Jangan Melupakan Sejarah),"* which translates to "never forget history," this paper will analyze the historical case of Albania during the rise and fall of the pyramid and Ponzi scheme and explore the lessons Indonesia can learn to avoid repeating Albania's mistakes of the mid-1990s. This paper also will examine the legal loopholes in regulating pyramid and Ponzi schemes in Indonesia. The paper aims to investigate the legal factors that contributed to the widespread proliferation of pyramid and Ponzi schemes in Albania, the socio-economic impact of their collapse, and the effectiveness—or lack thereof—of regulatory measures. By drawing parallels between Albania's experience and the current challenges in Indonesia, the research intends to offer actionable insights for policymakers, regulators, and stakeholders to strengthen Indonesia's

keeps growing in Indonesia https://sikapiuangmu.ojk.go.id/FrontEnd/CMS/Article/20633

regulatory framework, improve financial literacy, prevent similar fraudulent schemes, and contribute to the existing literature on the subject.

2. Concepts of pyramids and Ponzi schemes

Pyramid and Ponzi schemes are different. While multi-level marketing (MLM) as a business model is legal, it becomes illegal when it operates as a pyramid scheme. A pyramid scheme can be legal only after passing the two tests (Amway and the EU test)[3] to determine whether it is a pyramid or genuine MLM business model. There are potentially equally fraudulent financial activities that take advantage of the prospect of large profits. A person who is centrally running a Ponzi scheme is a person who compensates early investors with the money of new participants while falsely claiming to produce profits through legitimate investments. Its payments are sustained by an ongoing inflow of fresh investors, and it will eventually collapse when recruiting slows down (Tajti (Thaythy), 2022). On the other hand, multi-level marketing (MLM) structures can be a legal business entity. The pyramid schemes, which involve financial fraud, are based on a multi-level recruitment system in which participants make money mostly by recruiting new, fee-paying members. Because it depends on an ever-growing pool of recruits, this hierarchical model is intrinsically unsustainable since it puts recruitment ahead of the sale of real goods or services (Tymoigne, 2010). Both scams make use of the participants' faith and ignorance. Ponzi schemes hide their fraud under the appearance of investment offers that look real, whereas pyramid schemes are more obviously recruitment-focused (Tajti (Thaythy), 2021). Pyramid schemes can be legitimate; nevertheless, Ponzi schemes are always financial fraud.

2.1 Pyramid scheme

The history of multi-level marketing (MLM) dates to the early 20th century (Tajti, 2020a). MLM is a legitimate business model that involves selling products or services directly to consumers while encouraging participants to recruit others to join the sales force. However, its ethical implications are

[3] **The Amway test** is based on a landmark case in the U.S. (Federal Trade Commission v. Amway, 1979), which established criteria to differentiate legitimate MLM businesses from illegal pyramid schemes. The key factors include ensuring that compensation is based on actual product sales, not just recruiting new members, and having reasonable refund policies.
The EU test refers to legal standards applied within the European Union, which also assess whether MLM operations comply with consumer protection laws and avoid characteristics of illegal pyramid schemes.
More details about Amway and EU test can be found in Prof. Tibor Tajti’s publication https://doi.fil.bg.ac.rs/pdf/eb_book/2021/union_pf_ccr/union_pf_ccr-2021-ch3.pdf

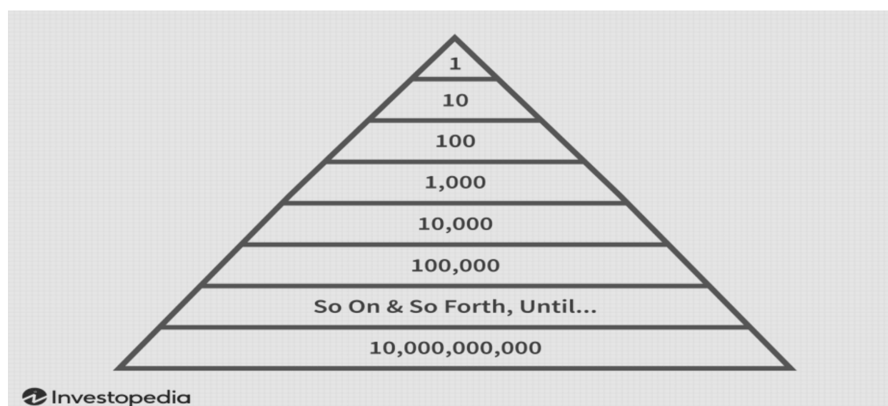
debated (Cardenas & Fuchs-Tarlovsky, 2018). Illegal multi-level marketing (MLM) is defined as a pyramid scheme, a fraudulent business model that primarily earns money by recruiting members rather than by selling actual products or services (Akinladejo et al., 2013). This scheme typically functions within a “naked pyramid,” wherein no business activity occurs, and participants are forced to recruit new members in return for promised incentives or commissions (Tajti (Thaythy), 2021). Typically, these rewards are financed by the recruitment efforts of recently recruited players, leading to a pyramid-shaped structure where early investors obtain the greatest advantages (Bloomenthal, 2024). Nevertheless, as the system depends on a constant influx of new participants to maintain rewards, it becomes unviable in the long run. Ultimately, when the process of recruiting new members decelerates or halts completely, the fraudulent plan crumbles, leading to substantial monetary setbacks for most participants. This emphasizes the deceptive characteristics of pyramid schemes and the significance of regulatory measures in identifying and preventing such fraudulent activities (Jarvis, 2000).

Table 1. Key Characteristics of the Pyramid Scheme

Key Characteristic	Explanation
Hierarchical Structure	Organized in a multi-level hierarchy where each participant recruit’s others, forming a pyramid shape.
Recruitment-Based Earnings	Participants earn money primarily through recruiting new members rather than selling products or services
Unsustainability	As with Ponzi schemes, pyramid schemes are unsustainable in the long run because they require an ever-increasing number of recruits to keep functioning
Legal Issues	Determined by the Amway and EU test, it can be legal business model as multi-level marketing (MLM). However, many jurisdictions have laws specifically targeting pyramid schemes, making them illegal.

Source: Primary data, Author, 2024

Figure 1. Pyramid Scheme Hierarchy System



Source: Julie Bang © Investopedia, 2019

2.2 Ponzi Scheme

The history of Ponzi schemes is a fascinating tale of financial deception that dates to the early 20th century (Zuckoff, 2005). These schemes are named after Charles Ponzi, who became infamous for using this fraudulent investment model (Zuckoff, 2005);(Wilkins et al., 2012) In 1919 and 1920, Ponzi traded in international postal reply to coupons, purchased discounted postal reply coupons in foreign countries, and cashed them in at face value in the United States. By using a real product, Ponzi lent an air of legitimacy to his scheme, convincing thousands of investors that they were participating in a lawful investment opportunity. An estimated $15 million was invested with him because he promised astonishing returns of 50% in just 45 days and 100% profit if the money was invested for 90 days, but the returns were not generated from any actual profit. Instead, Ponzi paid early investors using the capital from newer ones, creating an unsustainable cycle. As word of the high returns spread, thousands invested, but his scheme after 1 year inevitably collapsed when he could no longer attract enough new investors to cover the promised payouts.

A Ponzi scheme is an investment fraud that pays existing investors with funds collected from new investors (Noble, 2021). Ponzi scheme organizers often promise high returns with little or no risk. Instead, they use money from new investors to pay earlier investors and may steal some of the money for themselves. With little or no legitimate earnings, Ponzi schemes require a constant flow of new money to survive. When it becomes hard to recruit new investors or when large numbers of existing investors cash out, these schemes tend to collapse (van Driel, 2019). After a century, Ponzi schemes are still flourishing. Notably, one of the more recent and well-known Ponzi schemes is the infamous one carried out by ex-chairman of the Nasdaq and SEC advisor Bernard Madoff in 2008 (Artzrouni, 2009).

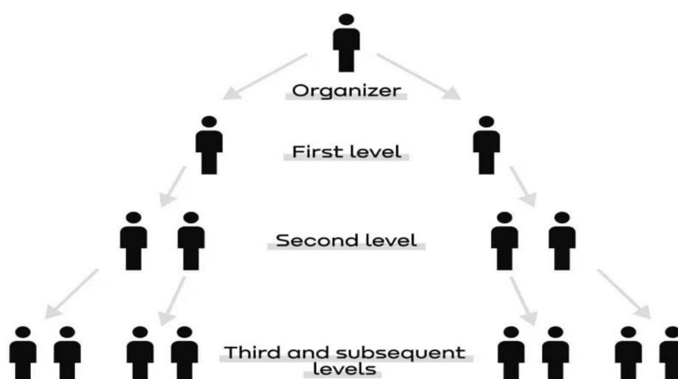
Ultimately, when the scheme fails to attract sufficient new investors or faces financial difficulties, it collapses, resulting in substantial financial losses for many participants. This highlights the deceptive nature of Ponzi schemes and underscores the importance of investor education and regulatory oversight in detecting and preventing such fraudulent activities (Yuspin & Fadhlulloh, 2022).

Table 2. Key Characteristics of the Ponzi Scheme

Key characteristics	Explanation
Centralized Control	Typically operated by a single individual or a small group who controls the funds and orchestrates the fraud
Fake Investments	Investors are misled into believing that they are investing in legitimate ventures.
Dependence on New Investors	The scheme relies on attracting new investors to fund payouts to earlier investors
Inevitable Collapse	As the scheme grows, it becomes increasingly difficult to recruit enough new investors to sustain it, leading to its inevitable collapse

Source: Primary Data, Author, 2024

Figure 2. Ponzi Scheme Hierarchy System



Source: elvtr, 2024

2.3 Differences between the Pyramid and Ponzi Scheme

While both a Ponzi and a pyramid scheme are fraudulent investment schemes that offer large profits at little risk, they operate differently. The crucial difference relates to the nature of both activities. Pyramid schemes often resemble multi-level marketing (MLM) models, as they involve both recruitment and the marketing of the organizer's products. For instance, Amway,[4] a well-known MLM company, markets cosmetic and personal care products while relying on recruitment as a core aspect of its business model. In contrast, Ponzi schemes, such as the infamous case of Bernie Madoff, do not involve the marketing of tangible products like cosmetics. Instead, Ponzi schemes are solely focused on investments, where individuals are persuaded to contribute funds with the promise of extraordinary returns. Madoff, operating as a bank and broker, convinced investors to entrust him with their money, claiming to possess superior knowledge of investment strategies. However, unlike MLMs, Ponzi schemes lack a legitimate product or service, relying entirely on financial manipulation to sustain the illusion of profitability (Tajti (Thaythy), 2021). The model fails when recruiting slows because those at the top are paid with the money from new recruits. By contrast, an operator of a Ponzi scheme rewards previous investors with money from newer ones instead of from the profit made (Murphy, 2010). The operator also promises great returns on investments. Usually, the operator conceals the absence of legal business activity, and the plan collapses when there are insufficient new investments to produce the anticipated profits. Although the form and operation of the two unsustainable and unlawful schemes are similar, pyramid schemes concentrate on recruiting, and Ponzi schemes focus on fictitious investments.

Table 3. Differences between Pyramid and Ponzi schemes

Aspect	Pyramid Scheme	Ponzi Scheme
Basic Concept	Recruitment-based fraud where participants pay to join and recruit others to do the same.	Investment fraud where returns are paid to earlier investors using new investors' funds.
Operation Mechanism	Members earn money by recruiting new	Promises high returns from supposed

[4] **Amway** (short for "American Way") is a global multi-level marketing (MLM) company that sells a wide range of products, including health, beauty, and home care goods. Founded in 1959 by Jay Van Andel and Rich DeVos, Amway operates on a direct selling model, where independent distributors (known as "Amway Business Owners" or ABOs) earn income through the sale of products and by recruiting others into the business. Currently, Amway operates in 100 countries as a legal company.

	participants who also pay to join.	investments but pays earlier investors with new investors' money.
Investor Awareness	Participants are often aware they are part of a recruitment scheme.	Investors believe they are investing in legitimate ventures
Source of Returns	Fees from new recruits are used to pay those at higher levels.	New investors' funds are used to pay returns to earlier investors
Sustainability	Collapses when recruitment slows down.	Collapses when new investments stop coming in.
Examples	Various MLMs that turn out to be pyramid schemes.	Bernie Madoff's Ponzi scheme
Structure	Decentralized, hierarchical structure with multiple levels.	Centralized operation managed by a single entity or individual.
Recruitment Focus	Requires participants to recruit new members to earn money, with emphasis on recruitment over sales of products or services.	Not required for participants to recruit others; typically managed by a central operator who recruits the initial investors.

Source: Primary Data, Author, 2024

2.4 Legal loopholes

Detecting, preventing, and managing pyramid and Ponzi schemes is highly challenging due to fraudsters using legal loopholes and ambiguities (Tajti (Thaythy), 2021). The distinction between legal and illegal activities can be obscured by these schemes as they imitate genuine business models, particularly multi-level marketing (MLM) (Epstein, 2010). Pyramid schemes cover their actual intentions, which are to collect recruiting fees rather than generate revenue from product sales, by impersonating multi-level marketing businesses (MLMs) (Albrecht & Filip, 2021). Similarly, Ponzi schemes trick both investors and authorities by utilizing specialized terminology and complicated financial instruments. Fraudsters utilize shell firms and intricate transactions to hide the true nature of the investment and use the money to pay earlier investors, so restricting comprehension by external parties (Bykadorova & Afanasiev, 2023).

The identification and prosecution of these schemes are further complicated by jurisdictional challenges. Several businesses take advantage of variations in

regulatory frameworks and enforcement capabilities across different countries. Scammers frequently set up fraudulent schemes in jurisdictions that have legal loopholes, and lack appropriate financial regulations and strong enforcement, specifically targeting investors in regions with stricter laws (Muncy, 2004). This cross-border operation exploits the different levels of regulatory oversight, which may not sufficiently address novel or developing financial products and markets like cryptocurrencies (Bartoletti et al., 2018). The absence of thorough regulation in these domains and the exploitation of unclear regulations create an ideal environment for fraudsters to operate openly.

Pyramid and Ponzi schemes utilize strategies that prolong their discovery, making it even more challenging to handle these fraudulent schemes. For example, Ponzi schemes lure in new investors by using their money to pay initial returns, giving the appearance of legitimacy and success, which, in turn, attracts even more investors (Frankel, 2013). This strategy prolongs the identification process and enables the plan to expand, making it more difficult for regulatory intervention. In addition, both types of schemes are constantly evolving, adjusting their strategies to take advantage of emerging technologies, markets, and regulation loopholes (Anggriawan et al., 2023). This flexibility allows scammers to outsmart banking supervision, necessitating regulators to stay alert and proactive in revising their frameworks and strategies for enforcement.

Managing these programs gets even more difficult since consumers do not know their dangers and mechanisms. Many investors are particularly vulnerable to manipulation since many of them are ignorant of the signs of fraud (Hock & Button, 2022). Ignorance emphasizes the need for comprehensive public education and awareness initiatives to help consumers spot and avoid themselves from becoming victims of such schemes. Furthermore, the worldwide broadening of these activities calls for close cooperation among law enforcement agencies and regulatory authorities in many nations.

3. Case Studies: The Collapse of Pyramid and Ponzi Schemes in Albania

An important case study that emphasizes the legal loopholes enabling the growth of these fraudulent companies is the collapse of pyramid and Ponzi schemes in Albania during the mid of the 1990s (Balestri, 2021). Examining the legal framework reveals a mix of unclear regulations, insufficient enforcement, and governance challenges, which supported an atmosphere fit for these programs' creation and eventual failure.

Albania transitioned from a communist government to a market economy in the early 1990s (Myhrberg, 2012); (Rama, 2019). The lack of established

financial institutions and legal systems characterized this shift and rendered people open to financial fraud (Jusufi, 2017). The absence of a clear legal definition of what qualified as a financial institution enabled pyramid schemes that emerged during this period that developed. Under the cover of legitimate companies, companies could be engaged in fraudulent activities and attract substantial investments without the typical inspection of government-controlled financial institutions (Bezemer, 2006).

Until 1976, Albania's financial landscape was dominated by a single entity, the State Bank of Albania, which served as the country's sole monetary and lending authority (Fischer, 2019). With no established financial market or basic banking experience, Albania faced significant challenges as it transitioned from a dictatorship and a centralized economy to democracy in the 1990s (sc. Xhemail Çupi & Muça, 2020). Despite these hurdles, the country moved swiftly and decisively toward an open market economy. The establishment of the Bank of Albania (formerly the State Bank of Albania) and the introduction of a two-tier banking system in 1992 marked significant milestones (Güner & Coşkun, 2023). At the time, only four banks were in operation: three with state-controlled capital and one with capital from both the Albanian government and international investors (Tarifa, 1995). In the following years, several small-privately owned banks emerged, along with the government bank of Kosovo in 1993 and two Greek-capital-based banks licensed in 1996 (Thanasi & Riotto, 2017).

However, the banking sector's capacity to meet the country's financial needs remained limited. State-owned capital banks, holding 90% of total deposits and 88% of domestic loans, were constrained by credit ceilings set by the Bank of Albania (Thanasi & Riotto, 2017). These banks offered real positive yields on deposits but engaged in minimal financial intermediation, burdened by high proportions of bad loans. The few commercial banks focused more on trade finance and foreign exchange transactions than on attracting consumer deposits or fulfilling their role as financial intermediaries (Haderi et al., 1999)Low loan activity and inefficiency plagued the banking system. The inadequate regulatory system, the inefficiencies of the banking sector, the lack of investment experts, and corrupt politicians and government created an environment ripe for financial exploitation (Karanxha, 2019);(Iacono, 2019).

Many Albanians in the mid-90s left the country for Switzerland, Greece, Italy, and any Western part of Europe to work and remit the funds to Albania (Haynes, 2022); (Karafolas & Sariannidis, 2009). The remittances sent by emigrants, intended to support their families, due to small life expenses needed were funds virtually idle and waiting for any investment opportunity (Korovilas, 1999). However, it often ended up being invested in these fraudulent schemes (Karafolas & Konteos, 2010). The promises of high returns

added to the mindset of becoming rich quickly with minimal risk attracted many Albanian households, who were eager to multiply the money received from abroad (Vaughan-Whitehead, 1999). As the banks could not provide attractive financial products or adequate financial intermediation, these remittances were diverted into pyramid and Ponzi schemes, further fueling their growth (Dematos, 2019).

Table 4. Remittances of Albanian immigrants (in million USD) from 1994-2000

Year	Official Network	Parallel Market	Total	% of GDP
1994	28	350	378	19.4
1995	60	325	385	15.5
1996	60	440	500	18.6
1997	84	183	267	11.6
1998	114	339	453	14.8
1999	89	279	279	10.0
2000	163	368	368	14.3

Source: Karafolas & Sariannidis, 2009

The rapid growth of pyramid and Ponzi schemes in Albania during the 1990s was primarily due to the legal void around financial regulations. The current legal system lets businesses loan capital without being classified as banks, therefore opening a major legal loophole that allows operators to take advantage of it to establish fraudulent investment possibilities. This lack of clarity in the legal rules of financial institutions meant that numerous fraudulent schemes could operate in a regulatory void, attracting inexperienced investors and finally causing massive financial devastation.

Benefiting from the legal loopholes, Vefa Holding, created by Vehbi Alimuça in 1994 initially registered as a private bank and had rights to collect "deposits," but it quickly became the largest and most prominent pyramid scheme in Albania during the 1990s (Frankel, 2013). Vehbi Alimuça utilized his position as a prominent businessman in Albania to attract people to invest in his company. Initially, Vefa operated as a legitimate business, investing in various sectors of the Albanian economy such as hotels, fuel, and retail stores. However, following the collapse of communism, Albania faced severe governance issues and a weak banking system, creating an environment ripe for exploitation. Vefa capitalized on the public's frustration with inefficient state-owned banks by attracting deposits and offering high interest rates. This strategy drew in many depositors seeking better returns on their savings. As

more similar businesses emerged, Vefa began raising interest rates to compete, setting it on a path toward becoming a classic Ponzi scheme.

Instead of generating real returns through productive investments, Vefa used new deposits to pay high "returns" to earlier investors, attracting even more funds and rapidly expanding its operations. By 1995, Vefa had established itself as the dominant pyramid scheme in the country, enticing hundreds of thousands of depositors with promises of outsized returns. This success inspired numerous imitators, leading to a speculative investment frenzy. Many Albanians emptied their bank accounts and took out loans to invest in these schemes, further fueling their growth. Vefa's aggressive marketing and strategic use of trusted networks, including community leaders and intermediaries, helped attract substantial remittance money from Albanian emigrants, who saw the high returns as an opportunity to maximize their hard-earned savings.

Vefa Holding and other early pyramid schemes expanded rapidly in the mid-1990s; they inspired the creation of many smaller imitators across Albania. Three notable examples were Gjallica, Kamberi, and Xhaferri (Nexhipi & Nexhipi, 2017). Gjallica was founded in 1995 by Bashkim Driza, who had previously been involved with the Populli pyramid scheme. Driza promised investors returns of up to 10% per month, far exceeding what legitimate banks were offering. Kamberi was established around the same time by Maksude Kadena, known as "Sudja," who had operated a similar scheme called Sude. Both Gjallica and Kamberi followed the classic Ponzi model, using new deposits to fund payouts to earlier investors rather than generating returns through real investments. This allowed them to rapidly expand their operations across southern Albania in 1996-1997 (Korovilas, 1999).

The rise of the People's Democracy-Xhaferri pyramid scheme in Albania began in 1995. Founded by Rrapush Xhaferri, he appointed a few former military generals, remaining from the communist era, to run his holding company to get traction and trust (Dematos, 2019). The scheme quickly positioned itself as a "foundation" that aimed to provide financial opportunities to the local population, particularly in the villages of Lushnja, Fier, and Berat. By promising exceptionally high returns on investments, Xhaferri attracted a significant number of depositors who were eager to improve their financial situations in a country where traditional banking systems were perceived as unreliable and inefficient (Hock & Button, 2023). The allure of quick profits resonated deeply with a populace still reeling from years of economic hardship, making the scheme appealing to both rural and urban investors.

As Xhaferri's scheme gained traction, it mirrored the rapid growth of other pyramid schemes like Gjallica and Kamberi, which had also emerged in the mid-1990s. The promise of high returns and the lack of effective regulatory

oversight allowed Xhaferri to expand his operations rapidly, drawing in hundreds of thousands of participants. The scheme thrived on the same dynamics that fueled the growth of its predecessors, leveraging the widespread disillusionment with the banking system and the desperation for financial security (Hock & Button, 2022). Many Albanians, including those who had previously invested in Gjallica and Kamberi, found themselves drawn back into the cycle of speculative investment, believing that Xhaferri's promises could provide the financial stability they sought. By 1996, Xhaferri had established a vast network of depositors, with its liabilities reaching a significant portion of Albania's GDP, highlighting the scale and impact of the scheme on the country's economy (Musaraj, 2020).

Around 25 operators have been identified as participants in pyramid and Ponzi schemes (Halili, 2013), namely during the turbulent period of the 1990s. The rapid increase in the number of these operators resulted in the establishment of a network of financial companies that operated with minimal regulation. This led to extensive involvement from the Albanian populace, with estimates indicating that almost half of the population[5] had invested in one or more schemes (Institute of Statistics (INSTAT) Albania, 2024). As the number of operators grew, the financial landscape became more complex, resulting in total liabilities of around $1.6 billion. This amount accounted for nearly half of the country's GDP at the time. It is possible that the actual liabilities were even higher, as some data regarding depositors and deposit amounts were unavailable due to inadequate recording and the crisis.

Table 5. Name of the Operators[a], Total depositors[b], and Deposit amount[c] (000/USD)

No	Operators	Total Depositors	Deposit Amount
1	Hajdin Sejdia	NA	NA
2	Gjallica	82,000	690,000
3	VEFA	85,000	450,000
4	Populli	304,000	105,000
5	Demokracia Popullore-Xhaferri	1,188,000	205,000
6	Kamberi	21,000	77,000
7	Cenaj	29,000	56,000
8	Silva	15,000	40,000
9	Malvasia	NA	NA
10	Kambo	NA	NA
11	Grunjasi	NA	NA

[5] Population in Albania during 1990-1999 is 3.3 million, according to the Institute of Statistic (INSTAT) Albania, Institute of Statistics. (n.d.). https://www.instat.gov.al/en/

12	Dypero	NA	NA
13	Bashkimi	NA	NA
14	Beno	10,500	1,800
15	Pogoni	NA	NA
16	B&G	NA	NA
17	Kobuzi	NA	NA
18	Arkond	NA	NA
19	Adelin	NA	NA
20	A.Delon	NA	NA
21	Agi	NA	NA
22	Çashku	NA	NA
23	M.Leka Company	4,500	11,000
24	Global Limited Co.	2,500	3,100
25	Sude	13,000	32,000
	Total	1,754,500	1,670,900

Sources: a. Halili, 2013, b. Jarvis, 2000, Tajti, 2022, c. Tajti, 2021

Despite the valid reasons for concern, the Albanian authorities failed to take any action to stop the proliferation of pyramid schemes. No investigations were conducted into these fraudulent organizations despite information indicating their involvement in illegal activities. During the *"Rump-Yugoslavia Wars,"*[6] while the nation was subjected to United Nations sanctions, several corporations provided financial assistance to criminal organizations involved in illicit activities such as smuggling commodities into Yugoslavia. There was a prolonged period of inactivity caused by worries regarding the regulatory authority, the involvement of influential individuals in some schemes, and the donations made by those operators to the ruling Democratic Party. Despite the International Monetary Fund's repeated warnings, the Albanian government chose to disregard them (Dematos, 2019).

In January 1997, Vefa Holding announced a suspension of interest payments. This announcement sent shockwaves through the investor community, as Vefa had been seen as a pillar of the financial landscape in Albania because Vefa had been a major financial hub for hundreds of thousands

[6] Yugoslav refers to all the Slav nations in the south from Slovenians, Croats, Montenegrins, Serbs, Macedonian, Bosnian (sometimes also Bulgarians but not Romanian as they are Romanic) True, the name of the small country under sanctions was initially Yugoslavia, it makes sense to refer to it as "Rump Yugoslavia" since the term "Rump Yugoslavia" refers to the remaining part of the former Socialist Federal Republic of Yugoslavia (SFRY) after its dissolution in the early 1990s. As Slovenia, Croatia, Bosnia and Herzegovina, and Macedonia seceded and became independent nations, what remained of Yugoslavia consisted mainly of Serbia and Montenegro. This smaller, fragmented version of the original Yugoslavia is often referred to as *rump Yugoslavia*.

of Albanians who had invested their life savings in the promise of high returns. The news spread quickly, causing panic among investors. Thousands rushed to withdraw their funds, leading to a classic bank run scenario. The inability to fulfill withdrawal requests led to the rapid collapse of VEFA Holding, marking the beginning of a larger crisis.

Following the collapse of VEFA Holding, the Xhaferri Foundation was the next major scheme to fall. Like VEFA Holding, the Xhaferri Foundation has attracted many investors with promises of high returns. As news of VEFA Holding's collapse spread, panic ensued among Xhaferri's investors. In a desperate bid to recover their investments, many rushed to withdraw their funds, which the foundation could not accommodate. The collapse of the Xhaferri Foundation triggered a domino effect, leading to the failure of other prominent schemes such as Kamberi, Populli, Gjallica, and Sude. Each collapse amplified the panic, causing a cascading failure across the entire network of pyramid schemes.

The protests quickly turned violent as the Albanian government attempted to quell the unrest following the collapse of the pyramid and Ponzi schemes that had devastated the financial lives of many citizens. As the situation deteriorated, armed groups began to emerge, taking advantage of the chaos to loot and engage in violent confrontations with law enforcement. The government's response was marked by increasing repression, with police and secret police (SHIK) deployed to suppress demonstrations. However, their actions only fueled public anger, leading to escalated violence across the country.

By late February 1997, the unrest had intensified, particularly in southern cities like Vlora and Saranda, where the financial losses had disproportionately affected the population. Reports indicated that protesters were seizing weapons from military depots, which had been left unguarded as troops were withdrawn to the capital, Tirana. The theft of arms significantly escalated the conflict, as civilians armed themselves and prepared to defend against what they perceived as an oppressive government. By the end of March 1997, the country was in a state of near civil war, with estimates suggesting that approximately 2,000 people lost their lives in the ensuing chaos (Jarvis, 2000). The violence was not limited to urban centers; rural areas also experienced significant unrest, as communities were torn apart by the fallout from the schemes (Balestri, 2021).

The government's attempts to restore order included declaring a state of emergency, which allowed for the use of military force against protesters. However, this only exacerbated the situation, as the military and police faced armed insurgents who had taken control of key towns and military installations. The deepening crisis revealed a stark north-south divide in Albania, with

southern regions, which had been more heavily impacted by the financial schemes, showing greater resistance to the government. The protests and subsequent violence highlighted the profound dissatisfaction with the ruling Democratic Party, which many blamed for the failures of the pyramid schemes and the economic mismanagement that followed. The collapse of these schemes and the ensuing unrest ultimately led to a loss of faith in the government and a demand for political change, setting the stage for a new chapter in Albania's tumultuous history (Vullnetari & King, 2014).

In the aftermath of the crisis, the Albanian government faced immense pressure to implement reforms to prevent such schemes' recurrence. The events of 1997 served as a stark reminder of the dangers of financial speculation and the need for regulatory oversight to protect investors. The collapse underscored the importance of building a robust financial system that could withstand the pressures of a rapidly changing economic landscape. While the immediate social impacts were devastating, the crisis also prompted a reevaluation of the country's financial practices and governance structures. The government was forced to confront the reality that unchecked financial schemes could lead to catastrophic consequences, and it began to take steps to establish a more regulated financial environment.

Despite the significant challenges, the long-term effects of the crisis led to a gradual recovery in the Albanian economy. The International Monetary Fund (IMF) (Jarvis, 2000) played a crucial role in stabilizing the economy and implementing structural reforms that aimed to strengthen financial institutions and restore public confidence. However, the social scars left by the collapse of the pyramid schemes remained, as many families struggled to rebuild their lives after losing everything. The events of 1997 not only reshaped the financial landscape of Albania but also served as a cautionary tale about the importance of governance, regulatory oversight, and the need for financial literacy among the populace (Barolli, 2006). The legacy of the pyramid and Ponzi schemes continues to influence discussions about reforming the legal loopholes in the financial law and the role of government in protecting citizens from financial exploitation to regain the respect and trust of Albanian citizens (Gorezi & Bashari, 2009).

4. Insight for Indonesia

In Indonesia, as the country started to flourish and many various new investment instruments entered the economy which the youth invested in, the financial market achieved an all-time high record in 2023. According to the data from the Indonesia Central Security Depository (KSEI), the total number of investors increased by 18% from 2022 (KSEI, 2024). Investors are

dominated by youth; almost 57% of the total investors age is less than 30 years old, and 23.58% are between 30 and 40 years old (KSEI, 2024). Dominated by the retail investor, there is potential that, without enough financial literacy, investors will be attracted to investing in pyramid and Ponzi schemes that offer high returns in a short time.

According to the latest data from the Investment Alert Task Force in Indonesia *(Satgas Waspada Investasi)*, the highest losses from Ponzi and pyramid scheme investment scams during 2017–2023 were Rp. 139,674 trillion, or approximately USD 9.98 billion (*Satgas Waspada Investasi* (SWI), 2024). That loss is the accumulation of pyramid and Ponzi scheme investment scams in Indonesia that involve many forms, including multi-level marketing (MLM),[7] crypto, peer-lending, forex trading, illegal online loans, travel companies (pilgrim), gold, and future trading (Yogatama, 2022).

Indonesia is an excellent ground for Ponzi, and pyramid schemes flourish for various reasons. First, quick and large profits attract money seekers, especially in a society with economic disparities (Rahmadani, 2021). In a culture with few wealth-building opportunities, huge rewards with little effort can be appealing. Second, lacking financial literacy and awareness of scheme hazards makes many Indonesians subject to manipulation and abuse by fraudulent operators (Hidajat, 2018). Third, the lack of strict regulations and enforcement allows Ponzi and pyramid schemes to run undetected and unpunished (Setiawan & Ardison, 2021). Cultural factors like trusting personal networks and suggestions without critical appraisal can also spread these schemes in communities (Ni Putu Rai Santi Pradnyani et al., 2022). Finally, the tremendous growth of digital platforms and social media channels has allowed scammers to reach a large audience and deceive naive victims. These elements make Ponzi and pyramid scams in Indonesia resilient and persistent, threatening investor safety and financial stability (Yuspin & Fadhlulloh, 2022).

[7] There is currently no established method in Indonesia to identify legal multi-level marketing (MLM) through the Amway test methodology used in the USA or the European Union's "4Finance UAB." The Financial Service Authority (OJK) has classified all pyramid and Ponzi schemes as multi-level marketing enterprises.

Table 6. Illegal Investment in Indonesia from 2018-2023 (In Trillion IDR)

No	Year	Total Operators	Total Loss
1	2018	106	1,4
2	2019	442	4
3	2020	347	5,9
4	2021	98	2,54
5	2022	21	120,79
6	2023	353	0,603

Source: Indonesian Financial Service Authority (OJK), 2024

The regulation of pyramid and Ponzi schemes in Indonesia is a complex issue, with a lack of clarity and consistency in the legal framework and may result in a legal vacuum (Anggriawan et al., 2023). This has led to confusion among both the public and law enforcement officials, potentially enabling the proliferation of such fraudulent activities. The rise of technology and the increasing number of investors in the capital market have further exacerbated this problem (F. Martono et al., 2023). The relationship between Ponzi schemes and multi-level marketing has also been highlighted, with both sharing the same trait of raising money through continuous recruitment (Suwitho et al., 2023). Despite the criminal accountability of investment managers who implement pyramid schemes, there is a need for more comprehensive and clear regulations to effectively combat these fraudulent activities, especially in the Ponzi scheme that started to be popular around the world, yet in Indonesia, it’s still a new financial fraudulent term (Rhizaldy, 2018).

The emergence of pyramid and Ponzi schemes in Indonesia bears a striking resemblance to the situation that Albania experienced in the early 1990s. These scams exploit individuals due to economic inequality, little financial awareness, excitement of the financial market and investment, and lack of regulations. Ignoring the threat caused by the pyramid and Ponzi schemes can create enormous bad consequences in Indonesia, like what happened in Albania during the 90s.

Currently, there is no regulation to specifically regulate Pyramid and Ponzi schemes in Indonesia. The regulation of Ponzi and pyramid schemes has been a growing concern, especially as these fraudulent activities continue to pose significant risks to investors. The Indonesian Financial Services Authority (OJK) is the primary regulatory body responsible for overseeing financial markets and protecting consumers from illegal investment schemes. However, the current regulatory framework regarding Ponzi and pyramid schemes is not comprehensive enough to effectively combat these types of fraud.

To handle cases related to pyramid and Ponzi schemes, the Financial Services Authority (OJK) has put into effect a regulation focused on safeguarding consumers in the realm of financial services. This regulation, also referred to as Financial Services Authority Regulation Number 1/POJK.07/2013 regarding Consumer Protection in the Financial Services Sector, offers guidance for financial service institutions and the public. Unfortunately, the current regulation falls short of effectively addressing pyramid and Ponzi schemes. It primarily focuses on guiding investors toward licensed financial service institutions, outlining complaint submission procedures, and categorizing types and stages of complaints. It does not specifically address the regulation of common investment schemes such as pyramids and Ponzi schemes.

The other regulation that somehow relates to pyramid and Ponzi schemes is provisions regarding the prohibition of collecting funds from the public without permission from the Indonesian Central Bank, found in Law of the Republic of Indonesia Number 10 of 1998 concerning Banking, which is an amendment to Law Number 7 of 1992 concerning Banking.

Article 16:

(1) Any parties conducting activities of collecting funds from the public in the form of Deposits shall previously obtain an operating license as a Commercial Bank or a Rural Bank from the Chairman of Indonesian Central Bank, except the concerned activities of collecting funds from the public is stipulated in a separate act.

(2) In order to obtain an operating license as a Commercial Bank or a Rural Bank as referred to in paragraph (1), the applicant is required to fulfill requirements concerning:

a. Organization and management structure;

b. Capital;

c. Ownership;

d. Expertise in Banking;

e. Feasibility of the business plan.

(3) The requirements and procedures for Bank licensing as referred to in paragraph

(2) shall be stipulated by the Indonesian Central Bank.

Specifically, the regulation regarding sanctions for this violation is set out in Article 46 of Law Number 10 of 1998. Article 46 paragraph (1):

"Anyone who collects funds from the public in the form of deposits without a business license from the Indonesian Central Bank as referred to in Article 16 shall be punished with imprisonment of at least 5 (five) years and a maximum of 15 (fifteen) years, as well as a fine of at least Rp10,000,000,000.00 (ten billion rupiah) and a maximum of Rp200,000,000,000.00 (two hundred billion rupiah)."

Therefore, anyone or any party that collects funds from the public without permission from the Indonesian Central Bank can be prosecuted under Article 46 paragraph (1) of this Banking Law, which stipulates a prison sentence of at least 5 years and a maximum of 15 years, as well as a fine of at least Rp10 billion and a maximum of Rp200 billion. Nevertheless, this regulation still has legal loopholes since it emphasizes financial services to obtain a business license before operating, which pyramid and Ponzi schemes, as fraudulent chameleons of finance, are able to manipulate in certain forms. Perpetrators may adapt their schemes to exploit new or existing loopholes. For instance, they may use digital currencies or other novel financial instruments that are not yet fully regulated.

Law of the Republic of Indonesia Number 7 of 2014 concerning Trade is also commonly used as the legal basis for the case related to the pyramid and Ponzi scheme (Sihotang et al., 2020). As mentioned in Article 9: *"A Distribution Business Actor is prohibited from implementing a pyramid scheme system in the distribution of Goods."* The sanction for abusing this law is explained in the same act, article 105: *"A Distribution Business Actor who implements a pyramid scheme system in the distribution of Goods as referred to in Article 9 shall be punished with imprisonment for a maximum of 10 (ten) years and/or a fine of up to Rp10,000,000,000.00 (ten billion rupiah). "* Article 105 of the law regulates sanctions for Distribution Business Actors who use a pyramid scheme system in the distribution of goods. According to this article, business actors found guilty of engaging in such practices may face sanctions in the form of imprisonment for up to 10 years and/or a fine of up to Rp10,000,000,000.00 (ten billion rupiah).

Pyramid schemes are generally considered unfair practices that harm consumers or other parties because they operate in an unsustainable manner, where profits are primarily derived from the recruitment of new participants rather than the sale of products or services (Haryadi et al., 2022). Therefore, severe penalties are imposed to prevent business actors from employing this harmful distribution system that expressly regulates pyramid schemes in the trade industry but does not address the financial services sector where pyramid

and Ponzi schemes are commonly exploited and do not indicate what constitutes pyramid and Ponzi schemes. When the law lacks detailed guidelines on what constitutes a pyramid or Ponzi scheme, enforcement becomes challenging and often ineffective. Without clear definitions, authorities may struggle to distinguish between legitimate business models and fraudulent schemes, leading to inconsistent or inadequate legal actions. This ambiguity creates a fertile ground for exploitative practices, where organizers can craft their operations to superficially align with legal requirements while continuing to operate in ways that are inherently deceptive and harmful to participants. The absence of specific criteria or benchmarks within the law allows these schemes to evade violations, making it difficult for regulators to identify and dismantle them before significant damage is done.

Organizers of such schemes often take advantage of these legal gaps by meticulously structuring their operations to appear legitimate, using complex financial products, sophisticated marketing strategies, or new technologies to mask the underlying fraud. They may present their business as a multi-level marketing (MLM) operation or an investment opportunity, exploiting the lack of regulatory clarity to attract unsuspecting participants. By operating within the grey areas of the law, these schemes can continue for extended periods, amassing large sums of money from victims while staying just within the bounds of legality. This not only complicates enforcement but also undermines public trust in regulatory bodies, as victims may feel that the law fails to protect them from such predatory practices.

5. How Indonesian Regulators Can Prevent a Crisis Like Albania's Pyramid and Ponzi Scheme Collapse

The devastating collapse of Albania's pyramid and Ponzi schemes in the 1990s offers a cautionary tale for financial regulators worldwide, including those in Indonesia, where growing financial inclusion and technological innovations have fueled both opportunities and risks. Financial crises driven by pyramid and Ponzi schemes, such as the catastrophic collapse in Albania during the 1990s, serve as a stark reminder of the vulnerabilities in financial systems, particularly in emerging economies. These schemes exploit gaps in regulatory oversight, public awareness, and institutional preparedness, often leaving lasting economic and social damage. As Indonesia continues to advance its financial sector and embrace technological innovations, it faces similar risks that demand vigilance.

To mitigate and address the legal loopholes in Indonesia's regulations regarding pyramid schemes and Ponzi Schemes, the government should consider implementing the following measures.

5.1 Strengthen financial authority roles

Learning a lesson from Albania in the 1990s, one of the legal loopholes is the financial authority's inability to mitigate and prosecute financial services that do not meet the legal requirements to operate and provide financial services. Indonesia must improve the roles of its financial authorities to avoid disasters like the pyramid and Ponzi scheme crisis that devastated Albania in the 1990s. The crisis in Albania reminds us very clearly of the risks involved in weak supervision of finances. The lack of strict control in Albania lets fraudulent schemes expand and offer enormous benefits with little risk. Large numbers of people were drawn to these programs, which resulted in significant financial losses when they inevitably collapsed.

In Indonesia, the regulations governing supervisors of a regulatory authority in the region and abroad are as set out in Law Number 21 of 2011 concerning the Financial Services Authority (OJK), as has been amended several times by the issuance of Law Number 12 of 2020. Later in the amended Law, it was stated that the OJK was to license, supervise, and regulate the financial sector, including investment management. Investment management institutions are contemplated in Law Number 8 of 1995 on the Capital Market, with the implementing regulation of Government Regulation (PP No. 6 of 2002) having their respective responsibilities. The presence of several laws that regulate investment management institutions does not matter in submitting proposals for adding responsibilities to the OJK. It is important to emphasize the scope of the OJK's authority if the role is stipulated in Law No. 21 of 2011. Every law has its particularity and scope of authority. In the Capital Market Law, the OJK is an institution called "government" established to organize and develop the capital market and financial service industries.

Continuous improvement and adaptation of regulatory frameworks are crucial for strengthening financial authority roles. The financial landscape is changing at a rapid pace, with the emergence of new products, technologies, and investment opportunities that can be exploited by individuals engaging in fraudulent activities. It is crucial for the OJK to consistently revise its regulations to address potentially fraudulent activities, especially in emerging fields such as digital finance and cryptocurrencies. Through effective regulation of financial products and services, the OJK can effectively prevent pyramid and Ponzi schemes from taking advantage of legal loopholes.

Strengthening financial supervision, also with an increase in human resources who can develop technology in the financial field related to financial fraud. The OJK must maintain a high level of consistency in its human resources and update technology to act against suspected fraud, ensuring that they are both swift and decisive. A lack of human resources can delay and allow fraudulent schemes to thrive and inflict even more damage. To enhance its capabilities,

the OJK also should consider investing in cutting-edge technologies like artificial intelligence (AI) and data analytics. These advanced tools have the potential to detect suspicious patterns and activities at an earlier stage, thereby strengthening the effectiveness of the OJK's operations. Using these tools, the OJK can swiftly act to close illicit operations before they inflict extensive harm.

Last thought, rather than create many task forces for any financial industry issue, OJK must enhance its role as a financial authority by promoting increased collaboration with other important stakeholders, both at home and abroad. The OJK must establish strong collaborations with law enforcement agencies, regulatory bodies, and international partners to effectively combat financial fraud. International cooperation plays a crucial role in tracking and dismantling the global networks of pyramid and Ponzi schemes. By developing stronger collaboration, the OJK can greatly improve its ability to safeguard Indonesia's financial system against the risks associated with fraudulent schemes.

5.2 Establishing specific regulations to regulate pyramid and Ponzi schemes

It is concerning to see the increasing number of complaints against pyramid and Ponzi schemes in Indonesia, especially considering the lack of specific regulations to address these issues. Without a dedicated law that clearly defines and prohibits pyramid and Ponzi schemes, perpetrators can exploit legal ambiguities to evade prosecution, and, with a good lawyer, the sanction and legal charges can be avoided because judges have limitations to determine which law applies to the case.

In Indonesia, the principle of *"No Law, No Violation"*[8] applies, meaning that activities not explicitly prohibited by law are not considered violations. This creates a regulatory gap for phenomena like pyramid and Ponzi schemes, which, in the absence of specific legislation, are effectively deemed "legal." Such a loophole poses significant risks, as seen in Albania's experience, where the lack of regulation around these schemes led to devastating economic and social consequences. Without targeted legal frameworks, Indonesia could face similar challenges in the future, leaving its financial system and citizens vulnerable to exploitation.

[8] The principle of *"No Law, No Violence"* in Indonesia reflects the country's commitment to the rule of law *(negara hukum)* as mandated by Article 1(3) of the 1945 Constitution, ensuring that all state actions, particularly those involving the use of force, are grounded in clear legal authority. It aligns with the principle of legality *(asas legalitas),* which prohibits punishment or actions beyond what is prescribed by law, as codified in the Criminal Code (KUHP).

Existing regulations in Indonesia related to pyramid and Ponzi scheme cases, such as the Banking Law and the Trade Law, do not adequately address the unique characteristics and complexities of these schemes. A special act would provide a comprehensive legal basis for regulators and law enforcement agencies to identify, investigate, and prosecute offenders. It would also enable the government to impose stricter penalties and confiscate illegally obtained assets, serving as a strong deterrent against future fraudulent activities.

A dedicated law would enhance regulatory oversight and coordination among various government agencies, including the Financial Services Authority (OJK), Bank Indonesia, and the police. By establishing clear roles, responsibilities, and information-sharing protocols, these agencies can work together more effectively to combat pyramid and Ponzi schemes. This coordinated approach is crucial in a rapidly evolving financial landscape where fraudsters often exploit gaps between different regulatory bodies.

The first aspect of these specific regulations should involve clear definitions and classifications of pyramid and Ponzi schemes. These fraudulent activities often operate in legal gray areas, exploiting loopholes in existing regulations. By providing precise legal definitions, the regulations can eliminate ambiguities, making it easier for authorities to identify and act against these schemes. This clarity is essential for both enforcement agencies and the courts to prosecute offenders effectively and for the public to understand what constitutes illegal activity.

The regulations should include strict licensing and reporting requirements for any financial entities or investment schemes operating in Indonesia. By mandating that all investment operations register with the Otoritas Jasa Keuangan (OJK) and provide regular, detailed reports on their activities, the government can closely monitor financial operations and detect irregularities early. These requirements would act as a deterrent to potential fraudsters, who often rely on operating under the radar to perpetuate their schemes. Additionally, the transparency created by such regulations would empower investors to make more informed decisions.

Furthermore, specific penalties and sanctions should be established for individuals and entities found guilty of operating pyramid or Ponzi schemes. These penalties should be severe enough to act as a significant deterrent, including hefty fines, long-term imprisonment, and the confiscation of assets acquired through fraudulent means. Additionally, the regulations should include provisions for victim compensation, ensuring that those who suffer financial losses due to these schemes have a legal avenue to seek restitution. The certainty of punishment and the possibility of compensation would both discourage fraudulent activities and provide justice for victims.

Implementing effective regulations to govern pyramid and Ponzi schemes in Indonesia requires a strong enforcement strategy. This would require providing law enforcement and regulatory agencies with the necessary resources and expertise to effectively identify, investigate, and prosecute these fraudulent activities. It is crucial to establish strong collaboration between the OJK, law enforcement agencies, and international financial bodies to effectively identify and dismantle fraudulent networks, particularly those that operate across borders. Through the implementation of strong regulations and strict enforcement, Indonesia has the potential to establish a financial landscape that prioritizes security and transparency. This will effectively protect its citizens from the negative effects of pyramid and Ponzi schemes.

5.3 Providing comprehensive investment literacy education for investors

Despite the fact that the Indonesian Financial Service Authority (OJK) already had a campaign about investment literacy, it was not enough to reach all the stakeholders; the campaign can be extended to Schools, Universities, Government offices, the Private company sector even flyers and billboard in the main street will be helpful to raise awareness about the pyramid and Ponzi scheme.

The lack of financial literacy among the population is a significant factor contributing to the proliferation of fraudulent schemes. Many Indonesians lack the knowledge to identify the warning signs of pyramid and Ponzi schemes, making them vulnerable to manipulation by unscrupulous operators. Educational campaigns that inform citizens about the characteristics of these schemes, the importance of due diligence, and the risks associated with high-return investments can empower individuals to make informed decisions and avoid scams.

Comprehensive knowledge of the foundations of investing should be one of the main elements of investment literacy education. From stocks and bonds to mutual funds and cryptocurrency, this covers simple ideas such as risk and return, diversification, and the various types of financial instruments accessible. Knowing these ideas helps readers create diversified portfolios fit for their financial objectives and risk tolerance. Furthermore, those less prone to fall for get-rich-quick plans or investment possibilities that seem too good to be true are those who are well-versed in these foundations.

Teaching investors about potential risks connected to various kinds of investments is another essential component of investment literacy. This covers knowing the volatility of the market, how economic events affect investment returns and the hazards connected to certain financial instruments. Knowing

these risks helps investors make better selections and prevent panic selling in market downfalls. Moreover, a well-informed investor base helps to maintain the general stability of the market since people are more inclined to remain cool under market fluctuations.

Investment literacy education should also address the importance of due diligence and research before committing to any investment. Investors need to learn how to critically analyze investment opportunities, including reviewing financial statements, understanding the business models of companies they invest in, and assessing the credibility of investment platforms. This skill is particularly important in the digital age, where the internet is flooded with both legitimate and fraudulent investment opportunities. By teaching investors how to conduct thorough research, Indonesia can reduce the incidence of investment fraud and enhance the overall quality of investment decisions.

Providing comprehensive investment literacy education requires collaboration between the government, financial institutions, and educational bodies. *The Otoritas Jasa Keuangan* (OJK) should take a leading role in this effort by developing educational programs and resources that are accessible to all segments of the population. Financial institutions can contribute by offering seminars, workshops, and online courses that teach practical investment skills. Educational institutions should also integrate financial literacy into their curricula, ensuring that young people enter adulthood with a solid understanding of personal finance and investing. Through these combined efforts, Indonesia can build a more informed and empowered investor base, leading to a stronger and more resilient financial future for the nation.

6. Conclusion

In summary, Indonesia, being a country with a booming economy and a large population, is currently in a phase of keen interest in investment due to the rise of early investors who have many idle funds to invest. However, a lack of investment literacy and knowledge makes it exposed to manipulation by pyramid and Ponzi schemes that camouflage themselves as promising investment opportunities. An alarming trend is the increasing number of victims of investment fraud, resulting in significant financial losses year after year. Furthermore, the Indonesian regulator continues to demonstrate negligence in the issue. The absence of a law specifically regulating the pyramid and Ponzi schemes, coupled with the government's negligence for this phenomenon, has created a pyramid and Ponzi scheme that is flourishing in Indonesia. Contributing factors included raising the influence of the greed factor to gain instant big profit. This social, economic, and legal environment mirrors conditions in Albania in the mid of the ’90s, which ended with the

collapse of the pyramid and Ponzi schemes and created the multi-dimension crisis and 2000 human victims.

The crisis in Albania related to the collapse of the pyramid and Ponzi schemes in the 90s serves as a crucial lesson for Indonesia in identifying and rectifying any legal loopholes within its legislation regarding such schemes. The Albanian crisis, which led to widespread economic instability, a severe social and political crisis, and nearly civil war, underscores the dangers of a country's failure to respond effectively to these fraudulent activities. The absence of adequate regulation and a lack of investment literacy among citizens and investors were key factors that allowed these schemes to flourish, ultimately leading to their collapse and causing significant harm to the national economy. For Indonesia, it is vital to promptly address any existing legal gaps that could permit the proliferation of similar schemes.

Key measures include strengthening the roles of financial authorities like the Indonesia Financial Service Authority supervision or *Otoritas Jasa Keuangan* (OJK), equipping them with the necessary high technology and authority to detect, monitor, and swiftly shut down fraudulent activities. Additionally, establishing specific regulations to govern the actions of financial authorities concerning pyramid and Ponzi schemes is essential. Providing comprehensive investment literacy education for investors is also crucial in preventing the spread of these schemes by enabling citizens to recognize and avoid them. Given that pyramid and Ponzi schemes are the fraudulent chameleons of the financial field, financial authorities must receive continuous updates and training to ensure that such frauds do not have the opportunity to take root and expand within the financial system. By learning from Albania's catastrophe experience, Indonesia can build a more resilient financial framework that effectively protects against these damaging schemes in the future.

References

Akinladejo, O. H., Clarke, M., & Akinladejo, F. O. (2013). Pyramid schemes and multilevel marketing (MLM): Two sides of the same coin. *Journal of Modern Accounting and Auditing*, *9*.

Albrecht, K., & Filip, K. (2021). *Weaponizing rhetoric to legitimate regulatory failures.*

Anggriawan, R., Susila, M. E., Sung, M. H., & Irrynta, D. (2023). The rising tide of financial crime: A Ponzi scheme case analysis. *Lex Scientia Law Review*, *7*(1). https://doi.org/10.15294/lesrev.v7i1.60004

Artzrouni, M. (2009). *The mathematics of Ponzi schemes*. https://mpra.ub.uni-muenchen.de/id/eprint/14420

Balestri, D. L. (2021). *Out of Albania: the Albanian civil war and the second Albanian "migration crisis (1997).*

Barolli, B. (2006). An overview of Albanian transition economy after 1992: Focusing on the main problems and future challenges. *Niigata University Repository*.

Bartoletti, M., Pes, B., & Serusi, S. (2018). Data mining for detecting Bitcoin Ponzi schemes. *2018 Crypto Valley Conference on Blockchain Technology (CVCBT)*, 75–84. https://doi.org/10.1109/CVCBT.2018.00014

Bezemer, D. J. (2006). On eagle's wings: The Albanian economy in transition. *Nova Science Publishers Inc., New York,* 18–19.

Bykadorova, E. Vl., & Afanasiev, A. V. (2023). Financial pyramid as one of the ways of money legalization (laundering). *Law Herald of Dagestan State University*, *45*(1), 132–138. https://doi.org/10.21779/2224-0241-2023-45-1-132-138

Campos, J. J. (2009). Avoiding the discretionary function rule in the Madoff case. *Loyola Law Review*, *55*, 588–616. http://www.nytimes.com/2009/03/13/business/l3madoff.html.

Cardenas, D., & Fuchs-Tarlovsky, V. (2018). Is multi-level marketing of nutrition supplements a legal and an ethical practice? *Clinical Nutrition ESPEN*, *25*, 133–138. https://doi.org/10.1016/j.clnesp.2018.03.118

Čunderlík, Ľ. (2021). Fraudulent schemes in the financial market (financial pyramids) – Detection and prevention. *Financial Law Review*, *21 (1)*, 16–30. https://doi.org/10.4467/22996834FLR.21.002.13285

Dematos, D. (2019, May 19). *Albania's pyramid scheme nightmare*. https://tontinecoffeehouse.com/2019/03/18/albanias-pyramid-scheme-nightmare/

Epstein, A. (2010). Multi-level marketing and its brethren: The legal and regulatory environment in the down economy. *Atlantic Law Journal*, *12*, 91–121.

F. Martono, Y., Setyobowo Sangalang, R., Januardy, I., & Ronggo Wicaksono, R. (2023). Criminal law review of investment managers who implement pyramid schemes. *Jurnal Ilmu Hukum Tambun Bungai*, *8*(1), 271–280. https://doi.org/10.61394/jihtb.v8i1.241

Fischer, B. J. (2019). Albania since 1989: the Hoxhaist legacy. In *Central and Southeast European Politics since 1989* (pp. 477–506). Cambridge University Press. https://doi.org/10.1017/9781108752466.019

Frankel, T. (2013). The Ponzi scheme puzzle: A history and analysis of con artists and victims. *Choice Reviews Online*, *50*(05), 50-2775-50–2775. https://doi.org/10.5860/CHOICE.50-2775

Gorezi, A., & Bashari, E. (2009). Enforcement of contract in Albania. In S. Messmann & T. Tajti (Eds.), *The Case Law of Central and Eastern Europe* (1st ed., Vol. 3, pp. 40–132). European University Press.

Güner, M. F., & Coşkun, K. (2023). Türkiye finans tarihinde Ponzi dolandırıcılık sisteminin erken Örneği: banker krizi. *Çukurova Üniversitesi İktisadi ve İdari Bilimler Fakültesi Dergisi*. https://doi.org/10.51945/cuiibfd.1385920

Haderi, S., Papapanagos, H., Sanfey, P., & Talka, M. (1999). Inflation and stabilisation in Albania. *Post-Communist Economies*, *11*(1), 127–141. https://doi.org/10.1080/14631379996075

Halili, P. (2013, March 29). ja si linden ne tenjejten dite 4 firmat e para piramidale (This Is How Were Created at the Same Day the First 4 Pyramids Firms). *Agjencia e Lajmeve Sot News (News Agency Today News)*. http://sot.com.al/dossier/29-marsi-ja-si-lind%C3%ABn-n%C3%AB-t%C3%AB- nj%C3%ABjt%C3%ABn-dit%C3%AB-4-firmat-e-para-piramidale

Haryadi, B., Wahyudi, I., & Hayati, N. (2022). Uncovering the dark side of Ponzi schemes through money game. *Jurnal Ilmiah Akuntansi Dan Bisnis*, *17*(2), 201. https://doi.org/10.24843/JIAB.2022.v17.i02.p02

Haynes, G. (2022, January 4). *How Albania became a pyramid scheme: The nation was scammed to the brink of civil war*. UnHerd.

Hidajat, T. (2018). Financial literacy, Ponzi and pyramid scheme in Indonesia. *Jurnal Dinamika Manajemen*, *9*(2), 198–205. https://doi.org/10.15294/jdm.v9i2.16261

Hock, B., & Button, M. (2022). *Why do people join pyramid schemes?* https://pure.port.ac.uk/ws/portalfiles/portal/62600863/Hock_and_Button_2022_AAM.pdf

Hock, B., & Button, M. (2023). Non-ideal victims or offenders? The curious case of pyramid scheme participants. *Victims & Offenders*, *18*(7), 1311–1334. https://doi.org/10.1080/15564886.2023.2186996

Iacono, F. (2019). Revolution and counter-revolution; or why it is difficult to have a heritage of communism and what can we do about it. *International Journal of Heritage Studies*, *25*(5), 507–521. https://doi.org/10.1080/13527258.2018.1450280

Institute of Statistic (INSTAT) Albania. (2024). *Albania Population 1990-2000*. https://www.instat.gov.al/en/

Jarvis, C. (2000). The rise and fall of the pyramid schemes in Albania. *IMF Staff Papers*, *47*(1), 1–29. https://doi.org/10.2307/3867623

Jusufi, I. (2017). Albania’s transformation since 1997: successes and failures. *Croatian International Relations Review*, *23*(77), 81–115. https://doi.org/10.1515/cirr-2017-0003

Karafolas, S., & Konteos, G. (2010). Choice of money transfer methods in the case of Albanian immigrants in Greece. *Transition Studies Review*, *16*(4), 962–978. https://doi.org/10.1007/s11300-009-0117-7

Karafolas, S., & Sariannidis, N. (2009). The banking network as a transmission channel of migrant remittances: The case of Greek and Italian banks in Albania. *Transition Studies Review*, *15*(4), 674–684. https://doi.org/10.1007/s11300-008-0036-z

Karanxha, V. (2019). Considerations on the leadership dynamics in the first stage of the transition in Albania. In *The End of Communist Rule in Albania* (pp. 167–194). Routledge. https://doi.org/10.4324/9780429242991-7

Korovilas, J. P. (1999). The Albanian economy in transition: The role of remittances and pyramid investment schemes. *Post-Communist Economies*, *11*(3), 399–415. https://doi.org/10.1080/14631379995940

Krige, D. (2012). Fields of dreams, fields of schemes: Ponzi finance and multi-level marketing in South Africa. *Africa*, *82*(1), 69–92. https://doi.org/10.1017/S0001972011000738

KSEI. (2024). *KseidoScope 2023*. https://www.ksei.co.id/files/uploads/fokuss_bulletins/fokuss_file/en-us/69_1st_edition_20220929091630.pdf

Muncy, J. A. (2004). Ethical issues in multilevel marketing: Is it a legitimate business or just another pyramid scheme? *Marketing Education Review*, *14*(3), 47–53. https://doi.org/10.1080/10528008.2004.11488877

Murphy, A. (2010). The largest pyramid scheme of all time: The effect of allowing unregulated credit default swaps. *SSRN Electronic Journal*. https://doi.org/10.2139/ssrn.1588089

Musaraj, S. (2020). Introduction: The tale of Albarado and the anthropology of financial speculation. In *Tales from Albarado* (pp. 1–30). Cornell University Press. https://doi.org/10.7591/cornell/9781501750335.003.0001

Myhrberg, K. (2012). *Heritage from the communist period in Albania – an unwanted heritage today?* https://api.semanticscholar.org/CorpusID:130934122

Nexhipi, A., & Nexhipi, E. (2017). The activity of pyramid schemes in Albania (1992 - 1997) and the effects of their decline. *European Journal of Interdisciplinary Studies*, *3*(4), 22. https://doi.org/10.26417/ejis.v3i4.p22-34

Ni Putu Rai Santi Pradnyani, I Nyoman Putu Budiartha, & I Made Minggu Widyantara. (2022). Tindak pidana penipuan investasi fiktif di pasar modal menggunakan skema piramida. *Jurnal Preferensi Hukum*, *3*(2), 443–449. https://doi.org/10.55637/jph.3.2.4960.443-449

Noble, J. C. (2021). Ponzi schemes. In *White-Collar and Financial Crimes* (pp. 35–49). University of California Press. https://doi.org/10.2307/j.ctv1bd4n6d.7

Nurzakiah, & Wasis. (2024). Criminal accountability false investments with Ponzi schemes in Indonesia. *KnE Social Sciences*. https://doi.org/10.18502/kss.v8i21.14809

Rahmadani, D. L. (2021). Reconceptualization of money game arrangements (illegal / bodong investments) as a crime related to legal protection

efforts of investors in Indonesia. *Melayunesia Law*, *5*(1), 73. https://doi.org/10.30652/ml.v5i1.7796

Rama, S. A. (2019). Who slew the dragon?! the collapse of communism, political change, and he student movement in Albania—a review of the literature. In *The End of Communist Rule in Albania* (pp. 1–32). Routledge. https://doi.org/10.4324/9780429242991-1

Rhizaldy, V. (2018). *Perlindungan hukum terhadap investor pada bisnis skema Ponzi di Indonesia.* https://api.semanticscholar.org/CorpusID:169415596

sc. Xhemail Çupi, & Muça, Sc. F. (2020). The economic development and trade liberalization in the post-communist Albania. *ILIRIA International Review*, *10*. https://api.semanticscholar.org/CorpusID:234286574

Setiawan, P. J., & Ardison, H. (2021). Criminal victimization on large-scale investment scam in Indonesia. *Veritas et Justitia*, *7*(1), 1–30. https://doi.org/10.25123/vej.v7i1.3917

Sihotang, J. S., Pakpahan, K., Siregar, H., Sembiring, Y. P. Y., & Sitorus, K. D. (2020). Tindak pidana menerapkan sistem skema piramida dalam pendistribusian barang oleh pelaku usaha. *Jurnal Darma Agung*, *28*(3), 457. https://doi.org/10.46930/ojsuda.v28i3.808

Suwitho, S., Budi Riharjo, I., & Ary Dewangga, D. (2023). The nexus between Ponzi scheme and multi-level marketing systems: Evidence in Indonesia. *Cogent Social Sciences*, *9*(1). https://doi.org/10.1080/23311886.2023.2178540

Tajti, T. (2020a). Are some classes of consumer-investors of collapsed pyramid and Ponzi schemes vulnerable? A multi-jurisdictional perspective. In C. Gabriel Stănescu (Ed.), *Discrimination, Vulnerable Consumers and Financial Inclusion Fair Access to Financial Services and the Law*. https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3750589

Tajti, T. (2020b). Pyramid and Ponzi schemes and the price of inadequate regulatory responses: A comparative account of the diverging regulatory responses of China, Europe, and the United States. *Texas Tech Business and Bankruptcy Law Journal*, *5*, 19–58. http:/ssrncom/author-328809andResearchgate.URL:http://www.ceu.edu.Electroniccopyavailableat:https://ssrn.com/abstract=3469810

Tajti, T. (2022). Pyramid and Ponzi schemes and the price of inadequate regulatory responses: A comparative account of the diverging

regulatory responses of China, Europe, and the United States. *Hungarian Journal of Legal Studies*, *62*(1), 24–74. http:/ssrncom/author-328809andResearchgate.URL:http://www.ceu.edu.Electroniccopyavailableat:https://ssrn.com/abstract=3469810

Tajti (Thaythy), T. (2021). Multi-level marketing and pyramid schemes. In *Zaštita kolektivnih interesa potrošača* (pp. 46–66). Pravni fakultet Univerziteta Union. https://doi.org/10.18485/union_pf_ccr.2021.ch3

Tajti (Thaythy), T. (2022). Pyramid and Ponzi schemes and the repercussions of the differing regulatory approaches. *Hungarian Journal of Legal Studies*, *62*(1), 24–74. https://doi.org/10.1556/2052.2021.00313

Tarifa, F. (1995). Albania's road from communism: political and social change, 1990–1993. *Development and Change*, *26*(1), 133–162. https://doi.org/10.1111/j.1467-7660.1995.tb00546.x

Thanasi, E., & Riotto, J. (2017). The spectacular rise and disastrous collapse of a financial scheme: The case of Albania. *Open Journal of Business and Management*, *05*(01), 194–207. https://doi.org/10.4236/ojbm.2017.51018

Tymoigne, E. (2010). *Detecting Ponzi finance: An evolutionary approach to the measure of financial fragility* (605).

van Driel, H. (2019). Financial fraud, scandals, and regulation: A conceptual framework and literature review. *Business History*, *61*(8), 1259–1299. https://doi.org/10.1080/00076791.2018.1519026

Vaughan-Whitehead, D. (1999). Albania in crisis: the predictable fall of the shining star. *Choice Reviews Online*, *37*(03), 37-1678-37–1678. https://doi.org/10.5860/CHOICE.37-1678

Vullnetari, J., & King, R. (2014). *'Women here are like at the time of Enver [Hoxha]…': Socialist and post-socialist gendered mobility in Albanian society* (pp. 122–147). https://doi.org/10.1057/9781137267290

Wilkins, A. M., Acuff, W. W., & Hermanson, D. R. (2012). Understanding a Ponzi scheme: victims' perspectives. In *Journal of Forensic & Investigative Accounting* (Vol. 4, Issue 1).

Yogatama, B. K. (2022, February 21). Kerugian investasi bodong capai Rp 117,5 Triliun. *Kompas.Com*. https://www.kompas.id/baca/ekonomi/2022/02/21/total-kerugian-investasi-bodong-10-tahun-terakhir-capai-rp-117-triliun

Yuspin, W., & Fadhlulloh, Q. H. (2022). Ponzi scheme: Risk and regulation in Indonesia. *International Journal of Social Science Research and Review*, *5*(10), 339–345. https://doi.org/10.47814/ijssrr.v5i10.599

Zuckoff, M. (2005). *Ponzi's scheme: the true story of a financial legend*. Random House Publishing Group.

Figure Sources

Figure 1. Pyramid Scheme Hierarchy System

Bloomenthal, A. (2024, June 3). *What is a pyramid scheme? How does it work?* https://www.investopedia.com/insights/what-is-a-pyramid-scheme/

Figure 2. Ponzi Scheme Hierarchy System

Six world's largest pyramid schemes. (2024). *Elvtr Magazine*. https://uk.elvtr.com/blog/six-world-s-largest-pyramid-schemes