



**A PUBLIC WARNING WITH REGARD
TO THE EMERGING PYRAMID SCHEMES IN LESOTHO**

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**PYRAMID SCHEMES AND ANY OTHER ILLEGAL
DEPOSIT-TAKING INSTITUTIONS IN LESOTHO**

The Central Bank of Lesotho (CBL) has observed with great concern the increasing number of illegal deposit-taking schemes in the country. The names and addresses of these specific schemes have not been mentioned in this paper because they are currently either under investigation by the Lesotho Police, or are being investigated by the CBL and will be closed very soon, while others are being investigated by the Reserve Bank of South Africa. It should also be noted that those which are operating in South Africa often cross the borders into Lesotho and pretend that they have been registered in South Africa.

The general public is informed that it is the responsibility of the CBL to supervise registered and licensed financial institutions in order to maintain financial stability in the country, to protect the people against the risk of illegal deposit-taking schemes in the country and, it is the responsibility of the CBL to award licenses to the safe and sound or fit-and-proper financial institutions in the country. It is therefore important for the Governor of the Central Bank of Lesotho to issue an education statement to the public with regard to the dangers of investing their funds with the pyramid schemes.

In view of the recent emerging pyramid schemes in the country, the Central Bank of Lesotho wishes to educate the public about the dangers of investing or participating in pyramid schemes. In doing so, this short article seeks to explain in a layperson's terms:

- (1) What pyramid schemes are;
- (2) How they work and
- (3) Why they are illegal in Lesotho.

What are Pyramid Schemes?

Pyramid schemes are illegal money-making ventures for individuals at the top of the pyramid. These individuals recruit participants who, in turn, recruit other participants to offer something of value, usually money. These recruits are offered the promise of money if they successfully bring in others to pay money to join the pyramid. A typical pyramid scheme would focus on the exchange of money and recruitment. Usually, there is no legitimate product being sold. In other words, there are no underlying assets involved in the transaction and therefore, the scheme is insolvent right from the beginning. That is, the first few people will gain large amounts of money while the majority will lose their funds when the scheme collapses.

How do Pyramid Schemes Work?

A single promoter (or small group of promoters) collects money from a certain number of "friends" and instructs them to collect more money from more of their friends with a promise of better returns on the initial deposit or "investment" based on the number of people a participant recruits. The cycle goes on from there.

Usually, but not always, pyramid schemes give a certificate of participation to the participant right after he or she has paid the required amount. As the pyramid grows the number of people involved becomes too large to sustain it. Some people will fail to deposit their money or recruit the required number of friends and the pyramid crumbles. Most people end up at the "bottom" of the pyramid and inevitably lose their initial "investment", which is enjoyed by the top selected few - usually those who started the scheme. The people at the bottom of the pyramid do not get their money back because there is no one beneath them in the pyramid adding new money to the pot.

It must be understood and recognized that losses are inherent in pyramid schemes, and the majority of the participants lose money at the end of the day. In any case the losses will be substantial not to the individual concerned but also to their families and more importantly to the whole society. The CBL, as the protector of the public within the financial market, recognize the hardships, such as the high unemployment rate, that our people are going through. However, the end result of a pyramid is to make the poor even poorer while it benefits those who started it. It should be noted that those involved in recruiting others are also guilty as they are spreading the impact of the pyramid scheme to the rest of the community.

Other Illegal Schemes and Insurance Products

Apart from pyramid schemes, there may also be other illegal banking activities which may not fit the description of the pyramid schemes presented above. However, it is important to note that any institution or person collecting money from the public without the permission of the Central Bank of Lesotho could be involved in an illegal activity. The public is therefore encouraged to first enquire from the Central Bank of Lesotho before funds are placed with any person who is not commonly known as a banking institution. Such as person should display his or her license offered by the CBL.

Why are Pyramid Schemes Illegal in Lesotho

Pyramid schemes are illegal because they violate **section 4 of the Financial Institutions Act (FIA) 1999**. Section 4 prohibits illegal banking business which can be simply defined as the taking of deposits from the public without being authorized by the Central Bank of Lesotho to do so and without being registered as a bank like other banks in the country. This means that no person is allowed to receive, accept, take or advertise, solicit, procure or attempt to procure a deposit or deposits from the public (which pyramid schemes do) or pretend to be a banking institution without being registered as banking institution. Violation of section 4 constitutes an offence and people who are involved in such schemes will not be compensated by either the Government of Lesotho nor the CBL when such schemes collapse or are being closed through the court of law in the country.

To simplify the issue, pyramid schemes are regarded as illegal banking business because:

- (1) They receive, accept, take, advertise, solicit or procure deposits from the public without being registered or licensed as banking institutions and
- (2) They are not and cannot be registered as a banking institution or otherwise be authorized to conduct that kind of business in Lesotho or elsewhere in the world.

The Central Bank of Lesotho therefore warns the public against these get-rich quick schemes and others that fit the definition of a pyramid scheme. Furthermore the Central Bank of Lesotho appeals to the law-abiding citizens of this country to help the law enforcement officers by reporting such activities immediately to the Central Bank of Lesotho as they become aware of them. This same appeal is extended to the traditional leaders and citizens of influence to assist our people in understanding the impact of these deceptive schemes that are aimed at impoverishing our communities.

Those who are interested in obtaining an authorization to conduct banking business or any other business that they are not sure of, should approach the Central Bank of Lesotho to obtain further information on how to go about it.