



The Socioeconomic Factors of the Albanian Pyramid Scheme Crisis

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Bachelor of Science in

International Management

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Affidavit

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Abstract

The country of Albania has faced many challenges throughout the years, many still present to this day. One of the most difficult struggles the country has faced was the crisis of 1996-1997. The formation of over 20 financial pyramid scheme firms throughout the 90s ended in two thirds of the population investing in the schemes in 1996 and an eventual collapse of the schemes in 1997, where the people of Albania found themselves in a situation of anarchy and near civil war. Analysing and specifying the major socioeconomic factors that led to these events are the forefront of this study. Although the link between pyramid scheme susceptibility and socioeconomic factors is a common topic in existing literature, this study takes the unique approach of utilizing the case study of Albania 1996-1997, one of the largest participating pyramid scheme crises relative to population. This study will take a closer look at answering the following research question:

1. What socioeconomic factors led to the rise of the financial pyramid schemes in Albania which collapsed in 1997?

Through existing literature and carefully conducted expert interviews, this study concludes that the populations lack of financial literacy, high unemployment, wide-spread poverty, and tight-knit communities were the socioeconomic factors that induced the participation of Albanians and caused the Albanian pyramid scheme crisis of 1996-1997.

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1 Introduction

1.1 Background

Although it is difficult to pin-point when exactly the phenomena of pyramid schemes was brought upon our society, one thing is for certain, its centuries long existence lives on to this day. From the post World-War 1 creation of the Ponzi scheme, to present day Multi-Level Marketing, financial schemes can be devastating for individuals and societies as a whole. The case of Albania is one where such informal financial institutions escalated into unforeseen circumstances of violence and havoc.

As the small Balkan country of Albania left more than 40 years of communism behind them, the early 1990's presented themselves with the long awaited shift to a democratic system and a free market economy. A much needed change for a country that was falling behind in comparison to its developing neighbors. Nevertheless, an unexpected and significant shift of the system cannot occur overnight, at least not without any repercussions. The years that followed saw the government of Albania's attempt at creating a newly flourished democracy slowly fade into chaos and terror, as a failed round of elections in 1996 would lead to the rise of the most participative pyramid schemes, relative to population, ever witnessed (Jarvis, 1999).

Jarvis (2000) claims that at the peak of the pyramid scheme crisis, almost half of the GDP of Albania lied in pyramid scheme liability. This level of participation in financial schemes is almost unheard of, making the case of 1997 Albania quite unique. Compared to its communist equivalent, newly transitioned Albania still suffered from a lot of socioeconomic factors. Various socioeconomic challenges can contribute to the heightened susceptibility of individuals and communities in terms of pyramid schemes (S. Bosley & Knorr, 2018).

1.2 Study Aim

The purpose of this study is to find out the different socioeconomic factors that heavily contributed to the rise and eventual collapse of the financial pyramid scheme crisis in Albania. Through the help of expert interviews and existing literature, this study aims to enhance the knowledge that already exists in regards to pyramid scheme susceptibility and its link to various socioeconomic factors. The case study of Albania is one of extreme circumstances. This specific case study is quite useful in facilitating a better understanding of how certain socioeconomic factors can lead to participation in financially fraudulent schemes.

Although the aim of this study is focused on better understanding the link of pyramid scheme susceptibility and socioeconomic factors in the case of 1997 Albania, the purpose of this research on a grander scale, delves deeper into the implications of present day marketing schemes.

1.3 Research Question

RQ: What socioeconomic factors led to the rise of the financial pyramid schemes in Albania which collapsed in 1997?

2 Literature Review

2.1 Pyramid Schemes

Although it is difficult to say exactly when the concept of pyramid schemes came to light, Rodney (1984) states that some form of a pyramid scheme has existed at least since the mid-to-late 19th century. Even though the concept of profiting through the recruitment of investors and the multiplication of this action seems to have been around for a long time, it is still a present practice that can be identified in today's world.

2.1.1 Defining Pyramid Schemes

Pyramid schemes can be identified in various different forms, some being extremely complicated thought-out operations, and others can be quite simple and small scale. Nevertheless, the idea still revolves around the same concept and theme (Woker, 2003). Woker (2003) states that a pyramid scheme is defined as a scheme that profits through the recruitment or introduction of another person. Furthermore, Baugh (2024) claims that a pyramid scheme is a business model that generates revenue through the promise of giving members cash payments in return for recruitments. In addition, Baugh (2024) elaborates on the roots of the name “Pyramid” scheme by positioning the organizer/organizers at the top and the increasing number of members below them.

As Woker (2003) states, pyramid schemes can be present in many different configurations. Although the main themes of primary profit through recruitment are still existent, a variety of different pyramid scheme derivations have been birthed throughout time. A Ponzi scheme is when the organizers of the scheme promise an unusually high return on a monetary investment, and try to fulfill that promise by recruiting other paying members (Carey & Webb, 2017). Furthermore, Carey & Webb (2017) state that all Ponzi schemes are unquestionably headed towards a negative conclusion, at least for the members. On the other hand, another product under the pyramid scheme umbrella is multi-level marketing, also referred to as “MLM”.

Woker (2003) defines multi-level marketing as distributors selling a product to the consumer with the hope of generating income through the sale of the product and the sales of those who they recruit. Emek et al. (2011) add to this definition by stating that this approach also includes some sort of motivation for participants to promote the product. Although multi-level marketing has been a known practice for some time, the increase of popularity and

accessibility of social media networks has been favorable for those who practice this approach. Woker (2003) explores the legitimacy of multi-level marketing, claiming that this practice can only be legitimate if it involves real products of significant value, and that revenue is generated from the sale of this product to consumers that find genuine value in it.

2.1.2 History of Pyramid Schemes

Although there is a degree of difficulty in exactly pointing out when pyramid schemes were first invented, due to how broad of a concept it is, the first recorded pyramid schemes date back to the 19th century. Adele Spitzeder, a German actress, founded her own bank in Munich in 1869, promising interest rates of 10 percent per month. An obvious Ponzi scheme that eventually collapsed in 1872, becoming at the time the biggest case of fraud in the region of Bavaria (Hulsart, 2013). The case of Adele Spitzeder was one of the first Ponzi schemes recorded, even before the actions of Charles Ponzi himself.

Charles Ponzi was an Italian man who immigrated to the United States in the early 1900s. In 1919 he found success by purchasing postal coupons from abroad at a discounted rate and selling them in the United States at a higher price, a practice that was not only legal, but also yielded high profits. Ponzi realized that in order to increase the scale of his business, he needed more capital. After being rejected for a bank loan, Ponzi decided to take individual investments, by promising participants high returns. Although Ponzi would keep his promise in the first few months of the scheme, the unstable nature of the pyramid scheme would lead to the expected eventual collapse of the original Ponzi scheme (Zuckoff, 2005).

Post the Charles Ponzi incident in the early 20th century, these types of financial pyramid schemes were labeled "Ponzi Schemes". Later in the 20th century, a larger scale case of pyramid schemes occurred, where several Ponzi schemes succeeded in recruiting a large population of the country of Albania,

as the eventual collapse of each Ponzi scheme led the country to a state of emergency and civil war (Jarvis, 1999).

In the present day, pyramid schemes are still a quite popular way of committing financial fraud and scamming individuals. Moreover, with constantly technologically evolving landscapes, approaches and techniques have severely changed. Emek et al. (2011) states that the multi-level marketing business model is often exploited through social media sites. In addition, Kell et al. (2023) explores the newly found accessibility to the blockchain network and how that has caused many pyramid schemes to thrive through the use of cryptocurrency.

2.2 Pyramid Scheme Susceptibility

Throughout time, there have been many cases of individuals or organizations running pyramid schemes that have been quite successful in luring in members and participants. One of these cases is the main case study of this research, late 1990s Albania. However, one thing that this case study portrays is that even a few decades later, pyramid schemes still have the ability to thrive, albeit in different and more advanced forms. Pyramid scheme susceptibility for individuals can be identified in different areas, whether that be psychological or economical. Nonetheless, to better understand what makes an individual susceptible to pyramid schemes, it is important to make the distinction between the reasons that are strictly related to the participants of a pyramid scheme, and those that come from the organizers (Hock & Button, 2022).

2.2.1 Participant Susceptibility

When exploring the phenomena of pyramid scheme susceptibility, a vague assumption of the correlation between intelligence and susceptibility is usually made. Mackenzie (2005) observes the psychological nature of individuals when faced with pyramid scheme investments in their thesis “The psychology of

Pyramid Schemes”, claiming that through an experiment conducted, they found no correlation between conventional intelligence and pyramid scheme susceptibility. Mackenzie (2005) adds on by stating that throughout a number of experiments where participants were offered a variety of investment options, many had difficulties distinguishing and identifying which one was the pyramid scheme. Although it is difficult to measure one's intelligence, Titus et al. (1995) claims that individuals at educational extremes are less likely to be victims of financial fraud, this refers to high school degrees and graduate degrees. Intelligence and educational background may not have a direct effect in an individual's susceptibility to financial pyramid schemes, however specific financial knowledge, especially in the ability of identifying fraudulent investment options is a key factor in individuals being more susceptible to pyramid schemes (Mackenzie, 2005).

Evidence suggests that pyramid schemes are more popular in countries that have gone through more economic turbulence (Bosley, 2019). This becomes more evident when observing cases of pyramid schemes in post-communist countries such as Albania and Russia. Such evidence suggests that pyramid scheme susceptibility can increase through struggling economic conditions, as individuals are more likely to participate in financial pyramid schemes when the promises made seem more appealing. However, it is apparent that pyramid schemes are not only identified in countries with economic uncertainty. Hock and Button (2022) in their paper “Why do people join pyramid schemes”, identify that pyramid schemes are also apparent in more developed countries, claiming that individuals are susceptible to pyramid schemes when they desire a more attractive lifestyle or when social opportunities are offered.

Bosley et al. (2019) explores the tendencies of victims of financial pyramid schemes, observing that victims not being open about their experiences with such schemes can have a counterproductive effect on their respective communities. Another form of pyramid scheme susceptibility can be identified

in those individuals that are already participating in the scheme. Arkes and Ayton (1999) state that an individual is more likely to continue a financial effort once they have already inserted a certain amount of money, effort, or time, even if this financial effort seems nonsensical. This is also known as the sunk-cost fallacy, where individuals refuse to end a financial relationship simply because they feel they have invested too much money, effort, or time to quit. The sunk-cost fallacy explains why many individuals who partake in pyramid schemes have a difficult time getting out of them, rather opting for the search of further recruitment or more investment. Furthermore, participants are incentivized to recruit others, usually through monetary gain. This additional layer makes it more difficult for pyramid scheme members to quit the scheme, as they look for rewards through recruitment, therefore inheriting a similar goal as organizers.

2.2.2 Organiser Exploitation

In many cases of pyramid schemes, individual susceptibility can increase due to the exploitation of individuals and communities that organizers capitalize on. Organizer exploitation can exist in different forms, whether that is through targeting specific communities, religious groups, or selling a product to a targeted audience. In terms of selling a product to a targeted audience, the exploitation occurs through a high pressure sales tactic, where potential victims of a specific group are invited to intimate meetings where they are pressured by organizers and members to join the scheme (Hock & Button, 2022). However, in financial schemes, the main method of exploitation comes in the form of monetary promises. Mackenzie (2005) states that pyramid schemes are always based on promises that cannot be fulfilled, hence the reliance on recruitment through deception.

Multi-level marketing is a business model that, although legal in many countries such as the United States, is exploited and essentially run as a

pyramid scheme. Shen (2019) explores the legal gray area that exists, particularly in the United States, in terms of the differentiation of legit multi-level marketing models and pyramid schemes. Woker (2003) explores the properties of multi-level marketing models, explaining that fundamentally, the model is based on selling meaningful products to consumers. However, Woker (2003) clarifies that multi-level marketing models also contain an element of recruitment, stating that once the revenue of a multi-level marketing model is mostly generated through recruitment rather than meaningful products, it is ultimately a pyramid scheme. This can lead to participants being deceived and therefore taking part in a pyramid scheme disguised as a multi-level marketing business model.

Anderton (2022) examines numerous cases of pyramid schemes where organizers target vulnerable women and exploit them for monetary benefit. Anderton (2022) states that many pyramid scheme organizers lure in vulnerable women, especially single mothers, by promising high earnings and the opportunity to work less and earn more. Pyramid scheme organizers show a common theme of exploiting vulnerable communities, groups, and individuals through promises that coincidentally benefit these individuals.

2.3 Multi-level Marketing Schemes

Contemporary pyramid schemes have become increasingly more difficult to identify by individuals. This can be attributed to factors such as technological development and the popularity and accessibility of social media networks (Emek et al., 2011). A business model originated in the United States, multi-level marketing aims to generate sales through meaningful products and individual recruitments, however tendencies of the exploitation of this model have led to the formation of hidden pyramid schemes (Cardenas & Fuchs-Tarlovsky, 2018).

2.3.1 COVID-19 Pandemic

Christopher Bradley and Hannah E. Oates (2022) state that in one in six households in the United States a multi-level marketing participant can be found. Christopher Bradley and Hannah E. Oates (2022) adds that multi-level marketing has grown by 14% in sales from 2019 to 2020, a growth that can be attributed to the COVID-19 pandemic. Pyramid schemes disguised as multi-level marketing schemes thrived during the COVID-19 pandemic, doing so by taking advantage of vulnerable individuals, mainly the unemployed, single parents, and struggling communities (Anderton, 2022). In addition, Christopher Bradley and Hannah E. Oates (2022) support this claim, by listing reasons such as high unemployment, flexibility, social media, and health concerns among their list of factors that facilitated schemes to thrive throughout the pandemic; health concerns being a major factor due to the abundance of multi-level marketing schemes claiming to sell products with health-benefits.

2.3.2 Herbalife

As the business model of multi-level marketing increases in popularity, various existing businesses have adapted and implemented this practice. An example of this is Herbalife, a corporation based in the United States. Herbalife develops supplements that aid weight loss, selling these products through a multi-level marketing model (Herbalife US, 2024). According to the Federal Trade Commission (2016), Herbalife's business practices resembled those of a pyramid scheme, as distributors were awarded for their recruitments, rather than the demand of the product. As Woker (2003) states, a multi-level marketing scheme can only be legal when revenue is generated through meaningful products, rather than recruitment, hence Herbalife's practices were ultimately considered as a pyramid scheme. This led to a settlement where the corporation had to pay out over 200 million dollars to compensate

members. The success of Herbalife signals the issue that the legal gray area between multi-level marketing and pyramid schemes causes, leading to large amounts of disguised pyramid schemes, creating difficulty in distinguishing legal practices and illegal financial schemes.

2.4 Albania throughout the 1990s

Freed from total isolation, the Albanian people anticipated exciting times ahead, as new opportunities and a potentially new flourishing democracy was in the making in the Balkan region of Europe. However, not only would the challenges of the necessary transition from a planned economy to a free market cause fundamental problems, in addition, many economic and socioeconomic issues that Albania faced throughout its communist regime would in turn carry over throughout the 1990s and onwards.

2.4.1 History

The death of Albanian dictator Enver Hoxha in 1985 was the turning point for Albania's shift towards a democratic state, however his regime would last until the early 1990s, through the leadership of Ramiz Alia. In 1990, university students went on a country-wide strike, opposing the communist regime. By 1992, the regime was overthrown and the first free elections after more than 40 years were held. The elections in 1992 resulted in a convincing win for the Democratic Party of Albania ("Modern Albania: From Dictatorship to Democracy in Europe," 2015).

Jarvis (1999) observes the economic history of Albania throughout the 1990s, specifically the years leading up to the rise of the financial pyramid schemes in 1996. Jarvis (1999) claims that the first period of transition caused initial shocks, with a dramatic fall in output, and tremendous increase in inflation. Nevertheless, throughout 1993-1995, healthy growth in GDP was present, and inflation was back to acceptable figures (Jarvis, 1999).

As the next election approached in 1996, small informal financial institutions that were created in 1993-1994, mainly Vefa Holding, started gaining traction. Their involvement in the political campaigns of the Democratic Party of Albania helped them gain momentum and popularity, as the party endorsed the institution (Jarvis, 1999). According to Jarvis (1999), two major events acted as a catalyst in the process of pyramid scheme popularization in 1996. Firstly, the suspension of the United Nations sanctions against the Republic of Yugoslavia during the second half of 1995, and secondly the campaigns and election results of the 1996 parliamentary elections in Albania. Due to the smuggling of goods through Albania to Yugoslavia in times of sanction, Jarvis (1999) claims that some Albanian companies, including pyramid scheme operations, were involved in the smuggling. This meant that these companies had to find other monetary means, hence expanding operations and increase of monthly interest rates. In addition, Nexhipi (2017) is in agreement in terms of the positive correlation between the endorsement of pyramid schemes by politicians and political campaigns, and their rise in popularity, stating that it contributed to the pyramid scheme gaining false public trust.

After the bankruptcy of over 20 firms by 1997, including Vefa Holding, it was estimated that approximately two thirds of the country was lured in by these financial schemes (Musaraj, 2011). Although the government tried to take measures by seizing assets of pyramid scheme organizers and paying participants back, the people of Albania had already resorted to anarchy (Jarvis, 1999). The south of Albania, was where most pyramid scheme investments came from, which in turn meant that unrest in the south was worse than any other region. With the police and army refusing to cooperate with the government, mass looting occurred, including armory deposits, which led to a near civil-war situation that slowly spread through the rest of Albania. Eventually the government in power resigned, making way for another round of elections in 1997, where the Socialist Party of Albania gained parliamentary

majority (Jarvis, 1999). With over one million weapons looted and over two thousand casualties, the newly appointed government with the help of international communities, were able to stabilize Albanian cities and bring back order through tax reform, strict monetary policy, and an overhaul of the banking sector (Jarvis, 1999).

2.4.2 Overview of Financial Pyramid Scheme Firms in Albania

At the point of bankruptcy in 1997, over 20 firms had been established and bankrupted, however the investments of two thirds of the Albanian population were mostly handled by five major firms. Bezemer (1997) highlights these five firms, highlighting their origins, scale, and eventual downfall.

Firstly, “Vefa Holding” was officially created in 1992, through the president of the company, Vehbi Alimuçaj. The company started off as a commercial company, later on investing in various businesses such as supermarkets, restaurants, malls, and a television station. “Vefa Holding” operated over 200 business in various fields, and employed a total of 10,000 individuals. As “Vefa Holding” started collecting capital from individuals in the south-west of Albania through pyramid schemes in 1992, by its bankruptcy, they had taken in more than 700 million US dollars in deposits. Its liabilities at the point of bankruptcy amounted to 250 million US dollars (Bezemer, 1997).

“Gjallica” was another big pyramid scheme firm that was established at a similar time to “Vefa Holding”, specifically 1991. The company started off as a currency exchange, located at an area that was dense in Albanian migrants, Vlorë. Similarly to “Vefa Holding”, the president of “Gjallica”, Shemsie Kadria, started off with real investments, such as supermarkets, gas stations, and going into the field of medicine and tourism. At the height of its pyramid scheme operations, “Gjallica” was capable of luring in 170,000 investors (Bezemer, 1997).

On the other hand, some pyramid scheme firms did not start off as legitimate business, but rather as charities. Such example includes “Populli”, with president Bashkim Driza. In contrast to the previously mentioned firms, “Populli” started off much later, in early 1996, claiming to be a charity foundation. At its peak, “Populli” was able to attract 400,000 investors, and by its bankruptcy, its liabilities stood at over 150 million US dollars (Bezemer, 1997).

Similarly, the firm “Xhaferri”, with president Rrapush Xhaferri, also initiated their activities as a charity foundation, in early 1996. However, “Xhaferri” were able to attract 1,500,000 investors, with total liabilities at the time of collapse of over 300 million US dollars (Bezemer, 1997).

Lastly, the pyramid scheme firm “Sude”, run by Maksude Kasemi, was established in 1993. However it was in 1996 where “Sude” found true success. “Sude” was quite different to the other financial pyramid scheme firms. As the schemes became popular in 1996, Maksude Kasemi saw an opportunity, and started claiming that she was able to predict the financial future of individuals through a crystal ball. This blatant scam was enough for an estimated 40-90 million US dollars in liabilities by the time she was jailed (Bezemer, 1997).

As previously mentioned, by 1997 there were over twenty firms running through the pyramid scheme model in Albania, however an overview of the main five firms portrays an idea of how such firms came to light and rose to success. It is clear that pyramid scheme firms in Albania took different approaches, with ones such as “Vefa” and “Gjallica” starting off as legitimate business, then turning into pyramid schemes in order to fund their practices. Other firms such as “Xhaferri” and “Populli” were established much later, specifically during the rise in popularity of pyramid schemes in Albania. Both firms ran pyramid schemes disguised as charity organisations, ultimately attracting large numbers of investors. Furthermore, organisations like “Sude”

ran complete blatant scams, albeit succesful, as individuals took financial advice from a self-identified fortune-teller (Bezemer, 1997).

2.4.3 Social Indicators

Johnston et al. (1992) observe the social and economic indicators of Albania throughout the last years of communism, into the beginning of transition, in their paper “Albania: From Isolation Toward Reform”. Figure 1 shows numerous social indicators in Albania in the year 1989. Firstly, taking a look at education, 25.7% of eligible students enrolled in any form of tertiary education. As of 2021, the average tertiary education enrollment of eligible students in Europe stands at 73% (UNESCO, 2021). Although in present day, this rate has gone up to 60% for Albania, the low percentage of students enrolling in tertiary education portrays a clear lack of quality education among individuals in Albania throughout the 1990s (UNESCO, 2021).

Another social indicator that is important to note in Figure 1 is GDP per capita. In 1989 this figure amounted to 623 dollars. In comparison to the rest of the continent, Albania ranked one of the lowest in GDP per capita, and when compared to neighboring Balkan countries, it remained at the bottom of the list (*World Bank Open Data*, 2024). Although GDP per capita is not the most accurate measure of individual well being and economic status, it can be argued that it does show a general idea of the living standards in a country, and in the case of Albania, this is reflected with quite poor living standards. In addition, the “other” section of Figure 1 shows the percentage of Albanian families that own specific products that can be considered necessities in many households around the world. The low percentage relative to the rest of the continent in terms of washing machines and refrigerators, is another sign of poor living standards and overall low quality of life (Johnston et al., 1992).

Nutrition is an important aspect of every individual. In 1989, the per capita supply of food in Albania was at 2713 calories per day. Although compared to

other countries in Europe in the present day that figure would be low, it still stands higher than most countries around the world that are suffering with mass hunger and high rates of poverty (Statista, 2022). This is also supported by the percentage of the Albanian labor force that were employed in agriculture, which in 1989 stood at 49.1% (Johnston et al., 1992).

Overall, social indicators in Albania at the point of economic transition, paint a very dire picture of the economy and socioeconomic status of the country. Johnston et al. (1992) explore the severity of the situation in Albania as the economic transition was inbound, describing poor living standards, sub-par nutrition, and inferior education standards in comparison to the rest of the continent and Balkan region.

Table 1. Social Indicators¹

GDP per capita (current U.S. dollars, 1990)	623 ²
Population and vital statistics (1990)	
Total population (in thousands)	3,256
Population growth rate (in percent)	1.8
Life expectancy at birth (in years)	
Male	69.6
Female	75.5
Population age structure (in percent)	
Under working age (0-14)	32.8
Working age (15-59 for men, 15-54 for women)	57.8
Over working age (60 and above for men, 55 and above for women)	9.4
Crude birth rate (per thousand)	24.7
Crude death rate (per thousand)	5.7
Infant mortality rate (per thousand)	39.0
Food, health, and nutrition	
Per capita supply of	
Calories (per day)	2,713
Proteins (grams per day)	82
Labor force (1990)	
Total labor force (in thousands)	1,567
Female (in percent)	48.1
Agriculture ³ (in percent)	49.1
Industry (in percent)	22.7
Education	
Enrollment rates (percent of school-age children)	
Primary	96.0
Secondary	70.0
Colleges, specialized schools, and universities	25.7
Pupil/teacher ratio	
Primary	19.4
Secondary	21.7
Other	
Private cars (per thousand)	— ⁴
Radios (percentage of families)	73.8
Televisions (percentage of families)	48.0
Washing machines (percentage of families)	12.7
Refrigerators (percentage of families)	14.1

Sources: Data provided by the Albanian authorities; and World Bank, Social Indicators of Development, 1989.
¹Refers to most recent year (usually 1989) for which data are available.
²At commercial exchange rate of leks 8 = \$1.
³Includes forestry.
⁴Permitted only since the second half of 1990.

Figure 1 - Social Indicators (Johnson et al., 1992)

2.5 Socioeconomic Impacts on Pyramid Scheme Susceptibility

There are many factors that can make individuals and communities susceptible to pyramid schemes. S. Bosley and Knorr (2018) analyze different social aspects that can affect an individual's susceptibility to pyramid schemes, claiming that an individual's education does not make them more susceptible to financial fraud, adding that religious communities and age has a larger effect on one's susceptibility to pyramid schemes. On the other hand, Greenman et al. (2022) observe pyramid scheme vulnerability at a community-level, exploring the effect of location through economic opportunity and social vulnerability and their effect on pyramid scheme vulnerability. Various socioeconomic factors such as an individual's gender, their age group, income, religious affiliation, education, and overall well-being are observable factors in regard to their relationship with pyramid scheme susceptibility.

2.5.1 Religion

S. Bosley and Knorr (2018) in their paper "Pyramids, Ponzis and Fraud Prevention: Lessons from a Case Study", identify different factors that increase the susceptibility of individuals in relation to pyramid schemes. S. Bosley and Knorr (2018) state that pyramid scheme susceptibility varies through different countries and regions. In addition, S. Bosley and Knorr (2018) conclude that regions and countries with higher pyramid scheme susceptibility are those with larger affinity groups, such as religious communities. Furthermore, Hock and Button (2022) also claim that immigrant communities and religious groups are more prone to pyramid schemes, suggesting that this is due to strong social bonds and frequent socializing.

In contrast, Messner and Rosenfeld (2009) attempt to explain the reasons behind individuals committing crime, through the institutional anomie theory, claiming that a heavy focus on macro economy leads to negligible attention on social factors, including religion. This entails that contrary to the belief of

previously mentioned literature, religious institutions and individual religious affiliation benefits one's pyramid scheme susceptibility.

Leonard (2021) examines specific cases of pyramid scheme organizers utilizing religious figures in order to lure in individuals of a particular religious affiliation. Leonard (2021) speaks on "Elite Activity", a pyramid scheme organization that targets individuals of Christian religious affiliation. Firstly, this was done through hiring religious figures, mainly pastors, into the pyramid scheme, who in turn would help increase recruitment. Secondly, religious language was used by the organizers and the recruiters in order to convince and exploit individuals affiliated with Christianity (Leonard, 2021).

2.5.2 Education

A large quantity of literature places education as a major factor when looking into an individual's susceptibility to pyramid schemes or willingness to precipitate financial fraud (S. Bosley & Knorr, 2018). Burke et al. (2020) explore the possibility of lowering financial fraud susceptibility through education by conducting an experiment. This experiment concludes that even minimal financial education can vastly help an individual in being less susceptible to pyramid schemes, through the ability to differentiate between legal and illegal financial practices. Shen (2019) agrees by reiterating the importance of financial literacy in regards to the ability of differentiating between fair business practices and pyramid schemes.

On the other hand, Titus et al. (1995) analyzes the susceptibility of over one thousand individuals through an experiment, concluding that educational background was not a factor in individual pyramid scheme susceptibility. Specific education background and tertiary education might not benefit an individual in terms of pyramid scheme susceptibility, nevertheless, Mackenzie (2005) stresses the importance of financial literacy and the major effects that the ability to differentiate financial fraud and legal practice has on pyramid

scheme susceptibility. In addition, Jamieson et al. (2019) elaborate on fraud prevention through education, emphasizing the importance of financial education in the prevention of financial fraud and promoting individuals and businesses to invest in financial literacy.

Deb and Sengupta (2020) support the idea of higher investment in financial literacy, suggesting that the deceiving convenience that pyramid schemes offer to individuals can be tempting to those who are not well educated in finance. Deb and Sengupta (2020) encourage government intervention in pyramid schemes through increased investment in individual financial education, especially in tight-knit communities. The literature on the correlation between education and pyramid scheme susceptibility clearly highlights the importance of education in the field of finance, even if minimal, in the attempt to lower pyramid scheme susceptibility.

2.5.3 Poverty and Income

As previously mentioned in the case study of Albania, low income homes and poverty was widespread in the country at the time that the pyramid scheme crisis commenced, leading to believe poverty can be a decisive factor in one's desire to invest in financial pyramid schemes (Jarvis, 1999). Jack and Ibekwe (2018) conduct a study analyzing participants of Ponzi schemes in Nigeria, as the practice was thriving due to economic recession. Jack and Ibekwe (2018) conclude that due to economic recession, socioeconomic difficulties, including poverty and lower income, create a situation that allows Ponzi schemes to thrive, as individuals become more susceptible.

On the other hand, Tennant (2011) observes the link between Ponzi scheme susceptibility and income, stating that individuals with higher income have higher risk tolerance, therefore might be more inclined to invest in fraudulent financial schemes. Nevertheless, Tennant (2011) adds that these individuals are more likely to not invest excessively, in contrast to individuals who earn

lower incomes, who can have a tendency to invest a significantly higher percentage of their income. Supporting the claim that low-income households invest more in pyramid schemes, Jentzsch (2023) highlights the results of pyramid scheme participant surveys in Kenya, which showed that over 90% of pyramid scheme investors came from vulnerable households. In addition, Jentzsch (2023) adds that the survey showed that high-income individuals were presented more opportunities than low-income individuals, however ultimately lower income groups were more vulnerable to investing.

2.5.4 Unemployment

A common theme that can be found in individuals that tend to invest in pyramid schemes is occupation, specifically unemployment. Christopher Bradley and Hannah E. Oates (2022) explore the conditions that the COVID-19 pandemic caused, which in turn facilitated the rise of many pyramid schemes, especially digitally. One of the conditions named was the high rates of unemployment that prevailed due to the global pandemic (Christopher Bradley and Hannah E. Oates, 2022). Furthermore, Anderton (2022) observes the increase of pyramid schemes disguised as Multi-level marketing schemes during the COVID-19 pandemic, highlighting the heightened susceptibility to financial fraud due to unemployment.

Levi and Smith (2011) inspect vulnerability to financial fraud in periods of financial crisis, claiming that economic struggles, including unemployment, causes individuals to be more willing to take risks. This is due to the fear of having to change to a less attractive lifestyle, hence opting for a riskier option such as financial schemes, making unemployed individuals more likely to invest. To add to the prospect of unemployment being a factor in financial scheme susceptibility, Nexhipi (2017) states that high unemployment was a major factor in tempting the population of Albania into investing in pyramid schemes. Similarly, in the case of Nigeria, high unemployment rates were an

important factor in the correlation between Ponzi schemes and economic recession (Jack & Ibekwe, 2018).

2.5.5 Minority Groups

Lisondra (2022) remarks on the connection between immigrants and pyramid schemes in Canada. Through the example of Rushina Taskin, who was approached by pyramid scheme organizers, Lisondra (2022) observes a trend of these organizers targeting new immigrants in the area. S. Bosley and Knorr (2018) mention the link between pyramid scheme susceptibility and minority groups, stating that in their studies, they found that some of the regions in the United States that were most affected by pyramid scheme liability were those with a sizable Hispanic population. Furthermore, Schiffauer (2018) analyzes the case of Aga, a Siberian district, primarily inhabited by ethnic minority groups. Schiffauer (2018) explains the multiple pyramid schemes that thrived in the region and the large number of inhabitants that invested in them. Nevertheless, Schiffauer (2018) attributes this phenomena to factors such as lack of financial education, and poor financial status.

Furthermore, Adams (2023) highlights the behavior of pyramid scheme organizers and their tendencies in areas of the United States to target African-American communities. Adams (2023) adds that African-Americans have been discriminated against in terms of options in maintaining and building wealth, making them more vulnerable to fraudulent schemes. In addition, Kiger (2023) highlights how immigrants in the United States, specifically Hispanic, are targeted from pyramid scheme scammers, usually due pyramid scheme organizers trying to benefit from factors such as language barriers and immigrants fearing state authorities.

2.5.6 Gender

A potential factor that can affect one's pyramid scheme susceptibility is gender. Huang et al. (2021) analyze the financial transactions of a Ponzi scheme in China, concluding that female individuals are more susceptible to pyramid schemes. Huang et al. (2021) argue that female investors are more likely to convince other female investors into joining a pyramid scheme, hence being more vulnerable. On the other hand, "Financial Fragility Across the Generations" by (Society of Actuaries, 2019), emphasizes the minimal difference in financial fragility between males and females, focusing more on the difference of financial fragility that come with marital and relationship status.

2.5.7 Relationship Status

An additional variable that can affect financial scheme susceptibility is relationship or marital status. Financial fragility is defined as an individual's vulnerability to financial downsides, and the decisions they make in a financial regard (Society of Actuaries, 2019). A financial setback that can be considered a financially fragile decision, is investment in fraudulent financial schemes. A survey of over two thousand Americans was conducted with the aim to evaluate the financial decisions that individuals in the country make (Society of Actuaries, 2019). The findings showed that individuals who are married or widowed showed tendencies of lower financial fragility, on the other hand, individuals who were single, divorced, or with a partner, showed higher financial fragility (Society of Actuaries, 2019). Nevertheless, it is important to note that existing literature on the link between relationship status and pyramid scheme susceptibility in specific is scarce.

2.5.8 Age

The study on financial fragility also explored age, showing that Millennials and Generation X individuals are more financially fragile in contrast to Late

Boomers and before. Additionally, Jack and Ibekwe (2018) argue that younger participants, specifically in their twenties, make up the majority of pyramid scheme investors, explaining that this is due to their ability to better access technology and their youthful nature which in turn pushes them to take more risks. However, studies with focus on pyramid schemes contradict this claim. Huang et al. (2021) claims elderly individuals are more likely to refer financial schemes to their counterparts, hence making them more susceptible. In addition, S. Bosley and Knorr (2018) also observe an age pattern in pyramid scheme participation, specifically stating that those who were recently retired were most vulnerable.

3 Methodology

As this study aims to answer its research question, it is important to discuss and define the fundamental methods utilized in this study's core research. The methodology section of this study will serve as a helpful tool in answering questions that may arise regarding the chosen research design and approach, the process of data collection, the approach of analysis, and ultimately the limitations and ethical considerations.

3.1 Research Design

This study takes on a qualitative research approach. In contrast to a quantitative research approach, where numeric data consisting of fixed responses is collected, a qualitative research design focuses on a more subjective direction. Qualitative research allows the collection of data through the knowledge, perspectives, and experiences that chosen individuals possess. (*Subject and Course Guides: Quantitative and Qualitative Research: What Is Qualitative Research?*, n.d.).

Interviews were conducted with five experts of the field, which later led to an exploratory research method. This method allows for the collected data and already existing literature to be connected in order to reach a conclusion over the socioeconomic factors that were most crucial in pyramid scheme susceptibility in terms of the case study that is being examined. This study utilizes a combination of a case study and phenomenological approach.

Creswell (2014) states that a phenomenological approach focuses on the study of individuals, and a case study research approach revolves around the exploration of events, processes or activities. A phenomenological approach is crucial in this study as drawing from individual experience and expert knowledge is a vital part of the data collection process. Furthermore, as this study centers around the events that occurred in 1997 in Albania, the phenomenological aspect of this study will then allow for an in depth exploration of the event, therefore justifying the necessity of a case study approach.

3.2 Data Collection

The primary method of data collection used in this study is through expert interviews. These interviews have been conducted through conference calls and through email. The interviewees were specifically chosen in a way that best reflects the research of this study, specifically the core case study that is analyzed. In the case of this study, the process of interviewee selection heavily relied on the expertise of the interviewees but also the experiences they had of the events that are being explored.

3.2.1 Expert Selection

During the expert selection process, several factors were taken under consideration. Field of expertise and work experience was an important factor in selecting experts. This study focused on selecting experts that are

specifically knowledgeable on the state of the Albanian economy throughout the years. Therefore, it was important that four out of the five interviewees worked in government positions related to the economy. Nevertheless, socioeconomic knowledge on Albania was a crucial property of the expert selection process, hence two experts were chosen due to their experience in the “Journal of Statistics and Socioeconomic Analysis” in Albania. First-hand experience was also a factor that was deemed important in the selection process of experts in this study, hence why all five experts chosen experienced the events of the Albanian pyramid crisis first-hand. Additionally, one of the five experts did not have work experience in the Albanian government, but rather in international banking. This was an important addition, adding a different perspective to the study. Ultimately, this study searched for experts that possessed first-hand experiences of the crisis, whilst also having work experience in the finance, economic, and socioeconomic sectors, either in Albania or internationally.

All five experts were found through personal connection. Three out of the five experts were contacted through email about the possibility of partaking in the study in March 2024, and were confirmed by the end of the month. The remaining two experts were contacted through a family intermediary, where afterwards an explanation of the study and their confirmation to take part occurred through email exchange at the end of March 2024.

3.2.2 Interview Guide

The interview questions were structured in a way that was logical and showed a clear link between questions. Every question is organized in a manner that allows the interviewee to share their expert opinion on the matter, a personal experience or perspective on the event. In order to keep the interview focused on the main aim of this study, questions about specific socioeconomic factors were asked in order to get the perspective of the experts on as many different

fronts as possible. The interview guide consisting of eleven interview questions is introduced below:

1. How would you like to be identified in the thesis? This can be your name and/or position and/or a description of your relevant qualifications.

2. How would you describe the state of the Albanian economy leading up to the events of 96-97?

3. In your own words, please describe the Albanian pyramid scheme crisis of 1996-1997.

4. In general, what made Albanian citizens so susceptible to these pyramid schemes?

5. Which individual-level characteristics best predicted participation in the pyramid schemes?

Income? Wealth? Occupation level? Education level? Gender? Age? Relationship status? Minority status? Religious affiliation? Other?

6. Which community-level characteristics best predicted participation in the pyramid schemes?

Affluence? Poverty and deprivation? Unemployment rates? Economic inequality? Infrastructure provision? Other?

7. What role was played by social capital (e.g., levels of social support, community cohesion, social participation)? Did it rather protect individuals from engaging, or encourage them to do so?

8. What are the characteristics of individuals who did not participate in the pyramid schemes?

9. Which socioeconomic groups were most severely affected by the crisis?

Are they the same individuals that participated in the schemes, or are there differences?

10. For each of the individual- and community-level characteristics that you identified as making people susceptible to pyramid schemes, how do you think that factor has changed since the late 1990s?

Are Albanians still susceptible? What are the priority areas that should be concentrated on?

11. Zooming out from Albania to the wider world, what do you believe makes people vulnerable to pyramid schemes in general, including MLM schemes?

The first question of the interview guide serves to introduce the interviewee and provide brief background on their experiences. The second, third, and fourth questions, aim to extract a general overview of the interviewees perception of the Albanian economy leading up to the crisis, the crisis itself, and general reasons as to why individuals were susceptible. Questions five and six aim to observe more specific individual and community-level factors. Both these questions were asked after question four, which was related to general susceptibility, in order to allow a logical flow to the interviews. The interview is followed by question seven, which touches on the role of social capital, with an added focus on its role in protecting or encouraging individuals. Question eight aims to take a different approach in the hopes of identifying a pattern, where interviewees are asked about the characteristics of individuals that did not participate in schemes. This is followed by question nine, which observes the groups most affected by the crisis, regardless of their participation or not. Question ten looks back at the community and individual-level characteristics provided in questions five and six, observing how these factors have changed in the last three decades. In addition, this question hopes to see if individuals in Albania are still susceptible to pyramid schemes, and what areas of focus are important to prevent pyramid scheme susceptibility. The last question of the interview guide brings the interview to a close by shifting away from the case of Albania and asking experts about present-day vulnerabilities that individuals face to multi-level marketing schemes and pyramid schemes.

3.3 Case Study Selection

The main aim of this study is to identify the socioeconomic factors that lead to pyramid scheme susceptibility, with a focus on the case study of Albania in 1996-1997. The uniqueness of this case due to the large participation in pyramid schemes relative to the population of Albania, was a factor in selecting this specific case study. The distinctive nature of this case study allows for the opportunity to explore unique perspectives on pyramid scheme susceptibility in terms of socioeconomic factors.

Another reason that justifies the selection of this case study comes in the form of the many socioeconomic issues that were once present and still are present in communities in Albania and the overall society. This provides an opportunity to analyze the many socioeconomic factors that were lacking in Albania at the time, and aim to come to a conclusion as to why such a large portion of the Albanian population participated in these pyramid schemes.

3.4 Data Analysis

Through the responses of all five expert interviews, this study aimed to utilize these responses to form an accurate conclusion. Following the completion of all five interviews, notes and transcripts were compared with the aim of analysing areas of agreement and disagreement. The key parts of this process can be found in the results section of this study. In order to extract an accurate conclusion through the expert interviews in hand, areas of consensus were analysed, in the hopes of finding significant patterns in interviewee responses.

Furthermore, following the phase of pattern and consensus identification, the main socioeconomic factors that affected the pyramid scheme crisis in Albania were listed. These main factors were once again further analysed and compared to their respective existing literature, solidifying the accuracy

of the claims made. These factors are listed and discussed in the discussion section of this study. The combination of existing literature and consensus of experts led to an accurate conclusion of the study.

3.5 Limitations

As a result of the selection of this specific case study, a limitation comes up in terms of the choice of interviewees. As it was important that the interviewees had knowledge on the specific case study, and potentially experienced the events themselves, the pool of interviewees to choose from was fairly limited. In addition, a lack of variety in expert perspective can be claimed, as this research would have benefited from a more diverse pool of perspectives, specifically an expert with experience in social studies. The interviewees were found through personal connections, which might infer that selection bias is present. Nevertheless, the data collected from the interviewees, as previously mentioned, was utilized through the exploratory research approach, which factors in the combination of these responses with already existing literature with the goal of further enhancing this study's conclusion.

Another limitation that this study faces comes in the data collection phase of the study. As mentioned in its respective section, the interview process consisted of a mix of live interviews and interview question answers sent by email. Firstly, this means that the interviewees that answered through email had more time to think about the questions asked, meaning they might develop more bias, in contrast to interviewees that were interviewed through an online conference meeting. In addition, the lack of the opportunity to ask follow-up questions in interviews answered via email led to less specific and concise answers.

3.6 Research Ethics

The data collection process ensured that all ethical guidelines were carefully followed in order to protect the interviewees at all costs. The interviewees were asked whether they preferred to remain anonymous or not in this study and their wishes were respected in either case. The live interviews were not recorded as per the interviewees request. Furthermore, the interviewees were informed prior to the interview that notes taken during the interviews (or the answers to the questions sent by email) will be stored on my personal computer where they will not be shared without their consent and their use is only intended for the purposes of this research study. It is also important to note that the interview guideline was approved by the MODUL University Institutional Review Board on the 5th of April 2024.

4 Results

In the results section of this study, the five interviews from experts will be presented and deliberated upon. The aim of this section is to provide the primary data that is most relevant and crucial, which in turn will help answer the research question of this study later on in the discussion section. Before the expert interviews are analyzed and observed, it is important that a brief background of each of the experts is provided, in order to better understand their perspectives. Further on, this section of the study will go through each question from the interviews, where the responses of all five experts will be explored.

4.1 Expert Background

Five experts were asked a set of questions from the interview guideline and format that was prepared prior to the interviews. The interviews were conducted through a mixture of online conference calls and emails, depending

on the preference of the interviewees. All interviewees were asked prior to the interview process whether they preferred to remain anonymous, however all interviewees were open to having their identities revealed in this study.

Elton Haxhi is currently the CEO of Nexia Albania, and served as deputy Minister of Finance and Economy in Albania, as well as additionally serving as a member of the Audit Committee of the Central Bank of Albania. Evelina Çeliku serves as the Head of Economic Analysis Sector at the Monetary Policy Department of the Bank of Albania. Additionally, since 2018, she has been a member of the Advisory Board of the Scientific Journal of INSTAT (Journal of Statistics and Socio-Economic Analysis). Delina Ibrahimaj served as the Minister of Finance and Economics in Albania from 2021 to 2023, currently serving as the Minister of State for Entrepreneurship and Business Climate. Erlind Mero currently serves as Principal Officer, Loan Administration, at Black Sea Trade and Development Bank in Thessaloniki, Greece. Ardian Fullani served as the former Governor of the Bank of Albania. All interviewees hold the relevant knowledge on the situation in Albania during the 1990s. Additionally, all of the interviewees have experienced the pyramid scheme crisis of 1996-1997 first hand, leading to further enhanced knowledge from their personal experiences and expert opinions.

In order to avoid any confusion throughout this section, the experts will be referred to as “Interviewee 1” or “I1”, “Interviewee 2” or “I2” and so on. The respective interview transcripts can be found in the appendix section of this study. I1 referring to Elton Haxhi, I2 referring to Evelina Çeliku, I3 referring to Delina Ibrahimaj, I4 referring to Erlind Mero, and I5 referring to Ardian Fullani.

As for the field of expertise of the experts, three of them have work experience in the Central Bank of Albania and two of them served as members of the board of the Journal of Statistics and Socioeconomic Analysis in Albania. These distinctive work experiences provide a crucial perspective on the

socioeconomic state and overall economic state of Albania from its point of transition and onwards. The addition of the element of personal experience means that all five experts have the ability to share their first hand distinct and unique perspectives on the matters discussed.

4.2 The Albanian Economy Prior to the Events of 96'-97'

In the aim to analyze and observe the socioeconomic factors that affected the pyramid scheme crisis that erupted in 1996, it is important to get context of the overall state of the Albanian economy in the years leading up to the events of 1996-1997. This section will discuss the economic conditions of the country throughout the 1990s, prior to the rise in popularity of pyramid schemes in 1996.

Overall, all five experts expressed that the economic state of Albania throughout the 1990s left a lot to be desired. However, I2 specifically mentions the economic situation of Albania in the early transition period, stating that Albania's economic situation was at its worst in the beginning of the 1990s (Interviewee 2). Furthermore, I2 stresses the factor of unfamiliarity with a new system and the struggles of a transitioning economy.

"The beginning of the transition in 1991-1992, faced the country in a tremendous economic and social poverty level. The majority of the population was totally unfamiliar with the rules, laws and practices of the open market economy and its institutions." (Interviewee 2)

I1 agrees, adding that the first years of transition, specifically 1990-1993, brought high inflation and high unemployment, adding that after 1993, these economic indicators would eventually improve, however not at an optimal rate (Interviewee 1). On the other hand, I4 comments on the transition of the Albanian economy, stating that it was successful, when taken into

consideration the situation of the communist regime prior the transition (Interviewee 4). I4 adds that when the sanctions against the Federal Republic of Yugoslavia were imposed, a new and quite important source of income was created, in the form of smuggling (Interviewee 4). As presented in the literature review, this part of the Albanian economy was shut down after the sanctions were lifted, which according to Jarvis (1999) was an important cause of the pyramid scheme popularization.

I4 adds to the claim of mass migration, stating that once Albania was freed from the isolating communist regime, many young individuals aimed to move abroad to support their families in Albania, leading to the creation of an informal credit market.

“The number of immigrants working abroad, (most of whom were young and eager to work) and their remittances to their own families in Albania created a stock of liquidity that was not channelled through the country’s banking system. These factors (non-existent banking lending possibilities, remittances, and other incomes like smuggling incomes) led to the creation of an informal credit market. In the beginning, this market was shy and kept a low-profile using family ties and friendship. The lack of governance in the financial market made it easy for them to develop rapidly since no one was able to identify the rules or responsibilities of who has to control this informal credit market.”(Interviewee 4)

Additionally, I2 also points out the problematic banking and financial sector in Albania throughout the 1990s, claiming that the inefficiency of the banking system led to the economy witnessing low levels of lending activity, encouraging the growth of an informal credit market (Interviewee 2).

On the other hand, I5 explains that throughout the 1990s, Albania was moving towards a positive economic landscape, with reforms in every sector being underway, however these advancements were put on hold by the social and economic crisis caused by the events of 1996-1997.

“Despite initial growth and ongoing restructuring reforms under the IMF and World Bank programs from 1991-1997, aimed at establishing a sound financial and banking sector, the economy became unstable. The banking system, price liberalization of energy and bread, judicial reforms, and public administration reforms were underway, but the collapse of fraudulent pyramid schemes triggered a severe economic and social crisis. Although Albania's economic fundamentals were in place, with inflation under control, a free-floating exchange rate, and a healthy banking sector, the crisis exposed significant vulnerabilities.” (Interviewee 5)

The consensus between the interviewees seems to be that although small steps were taken towards reforming the Albanian economy, its unstable state throughout the 90s and progress disruption in 1996-1997, meant that the 1990s were a struggling time for the Albanian economy.

4.3 Pyramid Scheme Crisis and General Susceptibility

All interviewees were asked for their personal description on the Albanian pyramid scheme crisis of 1996-1997, as well as general reasons as to why experts believed that Albanian citizens were so susceptible to pyramid schemes. The following section takes a deep dive into their responses.

4.3.1 Pyramid Scheme Crisis

Jarvis (1999) describes the pyramid scheme crisis in Albania as violent and lawless, a state of near anarchy. The interviewees tend to agree with this claim.

I1 goes over the individual anger and resentment that individuals felt, as many sold their homes in order to invest in the schemes, just for them to default in a few months (Interviewee 1.) I5 adds to the severity of the situation, stating that at the time of bankruptcy, the Albanian people witnessed a time of pure chaos (Interviewee 5).

On the other hand, I2 explores the factors that facilitated the growth of the pyramid scheme crisis, touching on the scale of the schemes, as they were spread in the whole country, as well as claiming the government's inefficiency was a factor (Interviewee 2).

“(The) Government did not respond immediately, probably because the President and the Prime Minister did not want to cause problems and complaints ahead of the local elections in October 1996” (Interviewee 2)

Similarly, I4 also explores factors that led to the pyramid scheme crisis, highlighting that increasingly high interest rates became appealing to the Albanian population (Interviewee 4). I4 adds that a major player in the very beginning of the pyramid scheme crisis were pyramid scheme firms that originated as real businesses (Interviewee 4). A brief overview of the major firms is mentioned in the literature review section through the findings of Bezmer (1997). I4 explains that firms that were established earlier as proper business-oriented companies, such as “Vefa” and “Gjallica”, initially aimed to offer higher interest rates than the state owned banks in order to incentivize the population to invest and fund their business venture (Interviewee 4). However, I4 claims that the entrance of newer firms, such as “Sude”, who offered triple the interest rates, would push everyone else to do so, leading to the collapse of all pyramid scheme firms (Interviewee 4).

“The beginning of this informal credit market was initiated by the needs of real business-oriented companies in the market

like Vefa, Gjallica or Cenaj. Their need for working capital made them offer in the beginning some interest rates doubling the interest that the people will get if they deposit this money in the state-owned banks. Later they were forced to increase this rate to 4-5 percent per month and at the beginning of 1996 to 6 percent per month and some months later offering 8 percent per month. This corresponds to the time when new actors entered the market. The beginning of 1996 is the time when real Ponzi schemes fiercely smashed this informal lending market. Populli and Xhaferi foundations were offering 8-10 percent per month from the beginning and later Sude marched in the market offering 12-19 percent per month. These events meant that even if the first companies who were not set up as pyramid schemes by early 1996 were forced to become such.” (Interviewee 4)

When asked to describe the crisis of 1996-1997, I5 speaks on the chaos that the financial collapse caused, commenting on the lack of financial education of Albanian individuals, and the unmodernized banking system.

“The Albanian pyramid scheme crisis of 1996-1997 was a devastating blow to our transitioning economy. The unchecked proliferation of these fraudulent schemes led to widespread financial collapse, eroding public trust and plunging the country into chaos. These challenges highlighted the mismatch between the complex financial operations and the low levels of financial education and inclusion in Albania. Additionally, state-owned banks remained a significant burden, hindering efforts to

modernize the financial sector and align it with modern Western financial systems." (Interviewee 5)

Experts commented on the size and scale of the pyramids schemes, with I4 in particular highlighting that 1.2 billion US dollars were wiped away in the informal market, and two third of Albanians invested in the schemes, adding that these events have had an impact on the lives of several generations (Interviewee 4).

4.3.2 General Susceptibility

Mass investment in financial schemes to the extent of this case, imply that there were several factors that caused this trend. When asked upon the general factors that made Albanian citizens so susceptible to pyramid schemes, four out of five experts mention unemployment as a factor of pyramid scheme susceptibility. I2 in specific, list a number of reasons as to why people in Albania were generally susceptible to pyramid schemes, stating that unemployment and low salaries made the high promised returns of pyramid schemes more appealing to the Albanian population (Interviewee 2). I3 also adds that even those who were employed, had quite low salaries, hence finding the returns of pyramid schemes appealing (Interviewee 3). A number of studies support the claim of unemployment as a factor of pyramid scheme susceptibility, including Christopher Bradley and Hannah E. Oates (2022), highlighting unemployment as one of the major factors in one's heightened susceptibility to pyramid schemes.

When moving over to different general explanations upon one's heightened susceptibility to pyramid schemes, specifically in the case of Albania, only one of the five experts mentions peer pressure playing a major role in the trend of investing in pyramid schemes. I1 states that peer pressure from family members and friends led to many people, who would initially be skeptical of the schemes, to invest in the schemes (Interviewee 1). Similar to peer pressure,

endorsement by government officials was only mentioned by two of the experts, namely I2 and I4.

“Unwillingness of the ruling and opposition parties to control and stop spreading of these schemes, even ignoring the red flags warnings of international institutions like IMF or World Bank, looking for their elections votes or their own personal financial benefits. It was normal in that period to see government officials participate in the events of these firms or even working for them in case of opposition. The lack of strong and clear government distancing their responsibilities from these schemes increased the general perception in the less educated part of population that the government it was supporting and was well aware of operational risks of these firms.” (Interviewee 4)

I5 names several factors that are believed to have increased the vulnerability of the Albanian population to financial pyramid schemes, including the lack of financial literacy, an underdeveloped regulatory framework, and reliance on informal networks (Interviewee 5).

“Several factors made Albanian citizens particularly susceptible to pyramid schemes. Due to decades of isolation under a centrally planned economy, many lacked basic financial literacy, making them vulnerable to promises of high returns. The rapid economic transition created instability and uncertainty, while an underdeveloped regulatory framework allowed fraudulent schemes to proliferate without oversight. Additionally, the reliance on informal networks, societal upheaval, and the allure of quick financial gains contributed to widespread participation in

pyramid schemes, leading to the economic and social crisis of 1996-97.” (Interviewee 5)

In terms of financial literacy, four out of five experts mention lack of proper financial education as a factor in their responses. Additionally, an overwhelming amount of already existing literature supports increased education, specifically in finance, as a way to lower individual susceptibility to pyramid schemes and other methods of financial fraud (Burke et al, 2020).

4.4 Individual/Community-Level Characteristics and Pyramid Scheme Susceptibility

Each expert was asked to list individual-level and community-level characteristics that best described the factors of individual or community susceptibility to the pyramid schemes in Albania. The following section looks over the different answers received from experts.

4.4.1 Individual-Level Characteristics

When asked regarding the individual-level characteristics that resembled most pyramid scheme participants in Albania, I1 highlights income and wealth as the individual factors that were most crucial.

“Income and Wealth, as moderate to low-income individuals were particularly susceptible, as they were more likely to be excited for the promise of high returns and a chance to improve their financial situation.” (Interviewee 1)

I2 provides a similar perspective, however in the process adding unemployment and financial literacy as individual factors that lead to high susceptibility to pyramid schemes.

“Lack of economic and financial literacy, low income, and high unemployment.” (Interviewee 2)

Interestingly, I3 agrees with the statement of low income and high unemployment, however, does not mention education and financial literacy.

“As I previously mentioned, low income and high unemployment were a factor.”(Interviewee 3)

On the other hand, although I4 similarly mentions the individual factors of income, wealth, employment status, and education, he also comments on often overlooked individual factors such as gender, age, relationship status, minority status, and religious affiliation. Nevertheless, although literature review might contradict this statement in a general sense, I4 debunks such factors as having any correlation with pyramid scheme susceptibility in the Albanian crisis.

“These factors were not as relevant on the participation on these pyramid schemes at the time. As mentioned before, 2 out of 3 Albanians participated in a way or another to this scheme.” (Interviewee 4)

I5 highlights three individual factors, stating that low-income individuals, individuals with a lack of education specifically in finance, and those who were unemployed had higher chances of investing in pyramid schemes at the time. However, I5 explains that economic instability led to individuals of different income levels and occupations vulnerable, however those with a lack of financial education were most susceptible.

“The individual-level characteristics that best predicted participation in the pyramid schemes included low financial literacy and education levels, driven by the lack of financial education during the centrally planned economy era for market economy. Economic instability and the promise of high returns made individuals across various income and

occupation levels vulnerable, though those with lower financial understanding were particularly susceptible. All these factors strongly affected pyramid scheme participation, but the most important predictors were low income, non-inherited wealth due to the prior communist regime, and occupation level. The pyramid schemes in Albania were based on the pure Ponzi scheme model, where later investors' money was used to pay earlier investors, a concept not invented by Albanians.” (Interviewee 5)

Referring to the literature review, social indicators portrayed that during its transition period, the Albanian economy showed low levels of wealth, low income for individuals, high unemployment, and poor education (Johnston et al., 1992). The most common individual-level characteristics that affected pyramid scheme susceptibility in Albania, according to experts, were low income amongst individuals, low wealth, unemployment, and sub-par financial education. Nevertheless, existing literature suggests that in general cases, further individual-level characteristics can have an influence in one's susceptibility to pyramid schemes.

4.4.2 Community-Level Characteristics

The literature review section of this study looks over different socio-economic factors and their link to pyramid scheme susceptibility. High unemployment rates and economic inequality are mentioned as community-level characteristics which affect communities in terms of pyramid scheme vulnerability. Moreover, pyramid scheme organizers show tendencies to exploit and target small communities of minority groups or religious affiliation. This section will go over expert responses on the effect of community level-characteristics in the vulnerability of citizens in the case of Albania.

Wide-spread poverty was a major and severe problem in the Albanian communist reign. Even after the fall of the dictatorial regime, many issues, including poverty, carried over and would continue being present in Albanian communities for years. I1 highlights wide-spread poverty throughout Albanian communities as a major characteristic of pyramid scheme investors (Interviewee 1). When asked on a community-level characteristic affecting susceptibility to pyramid schemes, I1 answers:

“Poverty, as lack of economic opportunities prompted individuals to seek out risky financial opportunities promising high returns.” (Interviewee 1)

I2 agrees, mentioning poverty, as a consequence of Albania’s past, a factor in pyramid scheme susceptibility (Interviewee 2). In addition, I2 highlights different communities that were mostly affected, namely the unemployed, farmers, and emigrants (Interviewee 2).. Due to Albanians having a newly found opportunity to leave Albania once the regime fell, many fled to bordering countries, seeking jobs and opportunities in order to provide for their families back home. A lot of these emigrants returned during the crisis with the hope of increasing their earnings through the available pyramid schemes.

“Different categories of people invested their savings/money: the unemployed in urban regions after the closure of non-profitable state-owned enterprises, which subsequently came out even from social protection programs; unemployed farmers; unemployed people as former employees in the old public administrations network, already reorganized; emigrants; intellectuals; and even politicians and foreign diplomats. The network of pyramid schemes covered whole country, but the largest number of

depositors and deposits came from the southern part of Albania. This is due to the large number of emigrants, as well as the fact that a part of the southern population neighbouring Greece and Italy could easily be involved in multiplying profits through illegal, contraband and criminal activities.” (Interviewee 2)

On the other hand, I3 interprets the factors differently, speaking on the close community approach that Albanian culture inherits. Many pyramid scheme organizers have the tendency to target certain communities, especially when these communities tend to be more social, leading to more influence on each other.

“In a community sense, Albanians have the tendencies to spread word in their close communities and even influence each other. That could have had an impact in the success of the pyramid schemes.” (Interviewee 3)

I4 highlights numerous factors that could have affected the susceptibility of the Albanian people. I4 claims low affluence and poverty as a factor to people finding pyramid schemes attractive. Additionally, I4 touches on high unemployment rates and economic inequality as important factors. Lastly, similarly to I2, I4 speaks on the density of the schemes being in the south, highlighting the effect that emigrants and their incomes had on susceptibility.

“The schemes were spread all over Albania, but the main number of depositors come from south of Albania which is explained with the fact that this area it was the most populated area and they have also the highest number of immigrants (together with their remittances) added to the geographical position with EU countries like Greece and Italy where incomes were high.” (Interviewee 4)

15 comments on high levels of poverty, high unemployment rates, and economic inequality, as well as stating that communities with limited access to trustworthy financial institutions, as a consequence of poor infrastructure, were more susceptible to the schemes.

“The community-level characteristics that best predicted participation in the pyramid schemes included high levels of poverty and deprivation, high unemployment rates, and significant economic inequality. Communities with poor infrastructure provision and limited access to reliable financial institutions were also more susceptible. The pervasive economic instability and lack of robust regulatory frameworks further contributed to the widespread participation in these schemes.” (Interviewee 5)

Amongst expert opinions, three out of five experts mention the large amounts of unemployed people as a community-level characteristic affecting pyramid scheme vulnerability, four out of five mentioning affluence and poverty, and two out of five experts highlight mass migration, as well as one mentioning poor infrastructure and economic inequality.

4.5 The Role of Social Capital

Social capital refers to the resources and values that individuals in a society utilize in order to achieve a shared purpose (Kenton, 2022). The idea of social capital is generally used to describe the impacts that societal relationships have on individuals, through the ability to obtain resources and information (Kenton, 2022). Experts were asked on the role of social capital and the effects on people’s susceptibility to pyramid schemes.

Social capital played an important role in pyramid scheme susceptibility and vulnerability of individuals in Albania. Referring to existing literature, multiple

studies highlight the exploitation of tight-knit communities, and the vulnerability to financial fraud that they suffer from due to high levels of sociability and easy accessibility to recruitment. I1 and I5 respond in agreement with this claim, both stating that peer-pressure in tight-knit communities had an impact on pyramid scheme participation (Interviewee 1). In addition, I5 speaks on the role of social capital, claiming it encouraged individuals to invest, rather than protect them from the schemes.

“Social capital played a complex role in the participation in pyramid schemes. High levels of social support, community cohesion, and social participation often encouraged individuals to engage in these schemes. The strong trust within tight-knit communities and reliance on word-of-mouth recommendations made people more likely to invest, believing that their friends and neighbors' involvement was a mark of legitimacy. Instead of protecting individuals from engaging, social capital often amplified participation in fraudulent schemes. The continuance of pyramid schemes over a long period and their promise of extraordinarily high returns in a short time created a social frenzy, akin to a windstorm sweeping across the ocean, further fuelling widespread participation.” (Interviewee 5)

I2 comments on the social expectations in Albanian society, and how individuals were encouraged to invest. Additionally, I2 also adds on the government endorsement of the schemes, claiming that the government choosing not to intervene implied their support of the schemes.

“Social psychology encouraged individuals and families, inside and abroad, to become even more active involving their funds and savings in these firms. In addition, there was

huge publicity in media for these schemes which was helped with the endorsement of the government and politicians to these financial bubbles. The government support was implied by not demanding these firms to pay taxes or to initiate a fiscal evasion investigation towards them.” (Interviewee 2)

The overwhelming majority of studies on pyramid scheme susceptibility point towards the need for support in financial education, especially in supporting individuals and communities in identifying legal and fraudulent investment opportunities. I4 states that the country of Albania was in a chaotic state at the time, adding that the lack of any type of NGO (non-governmental organization) in the country was quite unfavourable.

“The chaotic status of the country and lack of any NGO in these years to help increase level of knowledge for this kind of phenomenon had played a vital role.” (Interviewee 4)

In addition, I4 speaks on the participation of government officials in the schemes, explaining that the Albanian people perceived the schemes to be more trustworthy once they were endorsed by political figures. I4 comments on the role of social hysteria on pyramid scheme susceptibility, explaining that individuals showed unusual social behaviour.

“Social hysteria encouraged people to do things that not a normal society will permit their members to do. Today, it would be considered irresponsible or even crazy for someone to sell his apartment and invest the money in these firms, but in that time period it was more than normal. Whoever had a small apartment by doing so was able to have a bigger apartment in only 6 months. Or the case of a farmer who was selling their land or livestock and after some time he can multiply surface of number of livestock. At the time, such an

outcome was crazy and unbelievable. Furthermore, nobody was doing so, since on the day that they had to collect their principal together with interest they were simply reinvesting everything for another period.” (Interviewee 4)

Experts tend to agree that the social aspect of Albanian communities, and the closeness that they portray, had an impact in increasing pyramid scheme recruitments, through the influence of one another. In addition, rumours of foreign diplomats investing in the schemes, government hesitation to intervene, and endorsement of politicians, led to individuals and communities being deceived into trusting the schemes (Interviewee 4).

4.6 Characteristics of Non-Participating Individuals

In order to better understand the factors that caused mass investing into fraudulent financial schemes in Albania, it is crucial to observe the characteristics that describe individuals who did not participate in the schemes. Although this constitutes a small amount of the population, one third of Albanians chose to not invest into pyramid schemes. Experts were asked to describe the characteristics that resembled these individuals. This section will take a closer look at the answers of interviewees and the characteristics they list when speaking on non-participating individuals.

I1 names financial literacy as the main characteristic mostly found in adults that refrained from investing in pyramid schemes. However, I1 adds that due to the scale of the investments, people from all backgrounds invested in the schemes.

“Some characteristics in individuals who did not participate in the schemes would be financial literacy. Nevertheless, there were individuals from every background that invested in the schemes.” (Interviewee 1)

I2 speaks on individual perception of the schemes, claiming that individuals who were skeptical about the pyramid scheme firms operations did not participate. I2 also implies the characteristic of financial literacy being a major factor, by stating:

*“People who were sceptical about the way the schemes worked didn’t participate. In general, people working at the banking sector, at the Ministry of Finance, at the justice system and most of the professors at University, etc.”
(Interviewee 2)*

Similarly, I3 focuses on financial literacy, expressing that those with a better understating of financial fraud and the impossibility of the schemes hesitated to invest, also implying the positive effects of education in pyramid scheme susceptibility.

“The people that did not participate in the schemes were mostly those that understood the financial impossibility of pyramid schemes, usually those who had received better quality or higher education.” (Interviewee 3)

I4 reemphasizes the importance of education, commenting on financial literacy as a common characteristic amongst non-participating individuals. However, I4 adds that the scale of participation makes it difficult to define non-participating individuals.

“Well-educated people who in addition to their own education also gained some professional experience working for international companies or more education and intellectual jobs abroad. It is difficult to make a clean-cut division of whoever participated or decided to ignore these investments.” (Interviewee 4)

I5 emphasizes adequate levels of financial education as a characteristic amongst non-participating individuals, adding on the importance of an individual's ability to distinguish legal practices in contrast to pyramid scheme mechanics.

“Individuals who did not participate in the pyramid schemes were primarily characterized by their financial education and awareness of Ponzi schemes. These individuals understood the risks and mechanics of such schemes and actively resisted the allure of quick returns. Additionally, some were partisans who fought against the idea of participating in these fraudulent schemes, although their efforts were largely unsuccessful. This situation is reminiscent of the famous story of the fox and the cat in Pinocchio, where rational warnings were ignored in favor of enticing, yet deceptive, promises. It's akin to the belief that planting a tree with gold coins would result in a tree that grows more gold, illustrating the widespread and unrealistic hope for quick wealth.”
(Interviewee 5)

As most Albanians invested in the pyramid schemes during their popularity in 1996, it is difficult to assess the key characteristics that define those who chose to shy away from taking part. Nevertheless, all experts imply that overall education, specifically education in finance, was amongst the key traits of individuals who chose to not participate in the schemes. Relevant literature supports expert claims, with studies such as “Financial shenanigans: The importance of anti-fraud education” by Jamieson et al. (2019), where government intervention in the form of increased financial education is recommended and encouraged.

4.7 1997 Crisis and the Affected Socioeconomic Groups

Beyond the billions of dollars in liabilities, additionally the Albanian population suffered in other ways. The bankruptcy and collapse of all pyramid scheme firms in 1997, Albania was left in a state of anarchy. As over one million weapons were looted from military and police deposits, over two thousand Albanians lost their lives. This section will discuss the socioeconomic groups that were most severely affected by the crisis, and the possibility of the same individuals having participated in pyramid schemes.

As the monthly interest rates of pyramid schemes in Albania constantly increased, individuals and households saw an opportunity to maximize their savings. As income and savings was minimal in Albanian households, many opted to sell their properties, with the hopes of doubling or tripling their money. The default of pyramid scheme firms in Albania, led to people losing their homes, savings, and some even their lives. I4 expresses the losses that Albanians suffered at the time, going further than just monetary value, emphasizing the sacrifices migrants and the new generation of Albanians had to make after the end of the crisis, as well as speaking on the effect it has had on the number of Albanians ultimately leaving the country.

“If it is not enough to lose life, health, houses, savings, or other personal belongings, most of the people lost something that is not measured in money. Young generations lost their opportunities to study, immigrants lost all their sacrifices, sweat and blood shed during their migration period. Since the country was not able to provide any feasible opportunity in the short term, a new wave of immigrants flocked to Europe in order to start from scratch and help their families remaining in the country. Today, more than two third of the

population has migrated and number of Albanians residing within Albania is shrinking in scary numbers.” (Interviewee 4)

On the other hand, when asked about the socioeconomic groups mostly affected by the crisis, I2 explains that the crisis did not leave anyone unaffected. Due to the large scale of participation, practically every household, family, or community contained participants. According to I2, this meant that everyone was affected by the crisis.

*“All groups were affected by the crisis. People lost their savings, houses, money earned in emigration, suddenly they turned into debtors; a part of young people lost the opportunities to study, obliged to work or to emigrate helping their families already in debt. People faced very serious social and mental health consequences due to the irreparable loss of savings and property in these schemes.”
(Interviewee 2)*

I5 states that those who lost all their wealth and assets were mostly affected, however stressing on the fact that everyone was affected to some extent (Interviewee 5). Additionally, I5 comments on the consequences of these struggles, and the result of mass migration of Albanians towards neighbouring countries.

“The socioeconomic groups most severely affected by the crisis included individuals who sold their small inherited wealth, such as housing and cars, as well as those who invested their pensions and remittances from abroad. While all groups were impacted to some extent, these people were hit the hardest. They were often the same individuals who participated in the pyramid schemes, drawn by the promise of quick returns. The loss of their limited assets exacerbated

their financial instability, making the crisis particularly devastating for them. This led to a massive exodus of Albanians desperately seeking to make money abroad to recover their losses. (Interviewee 5)

In general, experts believe that there was no specific group that was most severely affected by the crisis, as everyone was affected in one way or the other. However, they emphasize the severity of the events, pointing out several ways Albanians were affected, including mental health, homelessness, migration, and casualties.

4.8 Individual/Community-Level Characteristics in Present Day

Albania

Compared to the 1990s, present-day Albania has gone through a lot of change, yet the country still embodies some of the characteristics that it did over 25 years ago. In terms of personal income and GDP per capita, Albania still ranks very low in the continent of Europe, however in other aspects, income inequality is fairly adequate, as per the Gini index data provided by The World Bank (2020). Nevertheless, with developing technology and increased accessibility to social media, new ways of financial fraud have appeared, leaving not only Albanians but everyone at risk.

All experts agree that Albania has made improvements in almost every aspect, leading to a society and individuals that are less susceptible to financial fraud. I1 remarks on the significant improvements of the country, whilst also speaking on areas to prioritize in order to lower pyramid scheme susceptibility.

“I would say that through the years Albania has seen vast improvement both at an individual- and community-level as unemployment rates have gone down and income has

increased. It is important to provide individuals with basic financial education.” (Interviewee 1)

From the experience of the pyramid scheme crisis, Albanian citizens have learned many valuable lessons. I2 explains this claim, stating that the general population in present-day Albania possess a higher level of financial education, and are in general more sensitive to fraudulent schemes, due to the crisis of 1996-1997. I2 adds that the population is growing fonder of banks, putting their trust in legal investment options (Interviewee 2). When asked on lowering susceptibility, and areas that society and government must prioritize, in order to protect individuals and communities from financial fraud, I2 states:

“In this regard the history of pyramid schemes in Albania should be treated as a case study in schools, in order to know their “rise and fall”, characteristics and consequences and then to prevent similar phenomena in the future. At the same time, the banking system should support citizens with financial services so that they do not try to find solutions in informal markets. Central banks should be careful and increase supervisory skills on the banking system and financial institutions as well.” (Interviewee 2)

I3 similarly speaks on the improving conditions in Albania compared to almost 30 years ago, mentioning lower unemployment, higher household income, and overall improved economic indicators. Furthermore, I4 recommends and highlights the importance of government intervention, as well as speaking on the improvement of Albanians financial and banking sector, and legal framework.

“Solid financial and banking systems, added to improvements of legal framework, has impact the people to look forward through standard market practices regarding

their investments and deposits. The banking system is functionally operating, and more people are using it on a daily basis.” (Interviewee 4)

Additionally, I5 adds on the improvements to education, economic stability, and regulatory frameworks that the country has made in the last 30 years (Interviewee 5). However, I5 also speaks on the vulnerabilities that are still present in the country today, specifically affecting the older population, as well as touching upon economic turbulence caused by recession and wars.

“Since the late 1990s, Albania has seen improvements in financial literacy, economic stability, and regulatory frameworks, reducing susceptibility to pyramid schemes. However, vulnerabilities remain, especially among older generations and rural populations. Economic inequality, poverty, and reliance on informal networks still pose risks. Despite 30 years of economic growth and globalization, the mentality of quick money persists, leading to shadow banking and sporadic cases of unpaid debts, exacerbated by the 2008 financial crisis, COVID-19, and wars. Addressing these issues requires ongoing structural reforms, deepening and broadening financial markets, and promoting financial literacy and inclusion from a young age to old. The fight against informality, corruption, and fraud remains an ongoing challenge characterizing the post-communist regime economy.” (Interviewee 5)

A common theme amongst experts on areas of priority when looking to lower social and individual susceptibility, is that of investment in education, specifically in finance. On present-day Albania, and its improvement in the last

30 years, experts claim that the country has taken positive initiatives, improving general well-being, and overall quality of life. According to experts, such strides, including learning from past experiences, has led to Albanians being less susceptible to financial schemes than before.

4.9 General Pyramid Scheme Vulnerability

The 21st century has introduced drastic changes in the way individuals communicate, work, shop, and conduct day to day activities. These changes can be attributed to advancement in technology, and high accessibility to this technology, creating a more convenient lifestyle for many around the world. However, this convenience has come at the expense of the increased dangers that social media networks bring, including cyber-bullying, negative influences on younger generations, and increased vulnerability to scams. As multi-level marketing schemes blur the thin line between legal business practice and pyramid schemes, individuals find difficulties in distinguishing legal businesses and illegal fraud. This section takes the focus away from the main case study of Albania, and looks at the bigger picture.

The last interview question, aimed to focus on present-day issues regarding pyramid schemes and financial fraud, shying away from the case of Albania. As experts were asked on what they believe makes individuals vulnerable to pyramid schemes and multi-level marketing schemes around the world, some interviewees claimed that similar conditions, resembling those of the Albanian crisis, cause susceptibility amongst individuals today. I2 provides a list of factors that are believed to cause vulnerability to pyramid schemes and multi-level marketing schemes around the world, including low income, low financial literacy, lack of formal financial institutions, and ultimately, the desire for quick and effortless profits (Interviewee 2). I4 lists many of the same factors, adding on the effect of corruption and the formation of informal markets (Interviewee

4). When asked on factors that make people vulnerable to pyramid schemes in general, I4 states:

“Poverty and educational levels. If the people are extremely poor and lack adequate and proper education, they will always look for any possibility that can change their life immediately. These schemes are lucrative and easy-going, since in the beginning everybody believes that if he loses it will be minimal but if they win it will be a life changer. Also, in corrupted economies where the level of crediting or intervention is driven by corruption, soon you will see (the) creation of informal lending market. Greed of immediate richness will make people close their eyes and be involved in criminal activities like pyramid schemes. The big crisis of 2008 shows that nobody is immune from greed, vanity, and lack of self-conscience about what we are and what we do.”
(Interviewee 4)

I5 claims that several factors affect individual and community vulnerability to pyramid and multi-level marketing schemes in the present day, such as financial literacy, and economic hardship (Interviewee 5). Furthermore, I5 emphasizes the importance of financial education and protection of individuals against fraudulent financial schemes.

“People worldwide are vulnerable to pyramid and MLM schemes due to several factors. Financial illiteracy and economic hardship drive individuals to seek quick financial gains, while trust in social networks and psychological manipulation make these schemes appear credible. Regulatory gaps and cultural emphasis on entrepreneurship also contribute to their appeal. The promise of high returns

with low effort and a lack of alternative opportunities further lure people into these fraudulent schemes. Pyramid schemes represent a money illusion phenomenon that persists as long as money exists. This is not a pessimistic view but an optimistic call for a revolution in financial education and money. Understanding these factors is crucial to developing effective strategies to educate and protect individuals globally.” (Interviewee 5)

On the other hand, I1 and I3 focus more on the dangers of social media, and the increased vulnerability to financial schemes that come with it (Interviewee 1&3). In addition, I3 highlights the link between economic recession and pyramid scheme vulnerability.

“Poor economic circumstance make people vulnerable to pyramid schemes. In terms of MLM schemes, a lot of them surfaced on social media especially in the biggening of the COVID-19 pandemic and the recession that it caused. There is a link between economic recession (and the negatives that it brings such as higher unemployment, inflation, low income), and pyramid scheme susceptibility.” (Interviewee 3)

In an attempt to better understand the current climate of pyramid scheme susceptibility, the closing interview question aimed to observe factors that make people susceptible and vulnerable to pyramid schemes around the world, possibly linking these factors to the case study of Albania. Experts provide factors such as low income, inadequate education, and poor financial and banking regulations, which bear resemblance to the case of Albania. However, interviewees also shed light on the heightened dangers and susceptibility to pyramid schemes, that stem from present-day conditions,

including social media accessibility, community targeting, and the existence of a legal gray area with business models such as multi-level marketing schemes.

5 Discussion

Throughout this study, various socioeconomic factors have been mentioned in relation to their link with pyramid scheme susceptibility. The literature review of this study discussed multiple social factors that can contribute to individual or community-level susceptibility to financial fraud based on the existing literature available, whilst the results section aimed to explore the factors of the rise of pyramid schemes in the case study of Albania, through expert opinions and knowledge. This section of the study aims to combine both existing literature and primary data collected, with the objective of answering the research question.

5.1 Financial Literacy

Different levels of education, specifically in finance, can have an impact on one's perception on investments. Financial literacy is often referred to as the abilities and skills that individuals possess, in order to invest and manage finances in the most efficient way possible (Fernando, 2024). Nevertheless, many definitions fail to mention that financial literacy also refers to the ability to distinguish fraudulent activity, and legal business practices.

The existing literature and expert interviews introduced in this study support the claim that inadequate financial education has an impact on pyramid scheme susceptibility, affecting individual decision making, in turn making one more prone to invest. Minimal education in finance can help individuals distinguish safe investment options from pyramid schemes.

Referring to the social indicators provided by Johnston et al. (1992), one can form an idea of what the social status of communist Albania was at the point

of its handover to a free market economy. Although attempts at improvements were made, sub-par education was widespread in the country up until the point of crisis in 1996. Combining the general nations unfamiliarity to financial institutions with their lack of adequate education, the financial illiteracy of most of the Albanian population led to high participation in pyramid schemes.

5.2 Unemployment

An additional factor, which impacted the vulnerability of individuals to pyramid schemes in Albania, was unemployment. Although the unemployment figures of the early 1990s were slowly stabilizing throughout the decade, by 1996, many Albanians found themselves unemployed. This led to much of the population seeking jobs outside of Albania or looking for alternative solutions.

As the high levels of unemployment left many Albanians jobless, the appetite for quick and effortless returns grew amongst the population. Those who were unemployed, decided to put their trust in informal institutions, in the hopes of getting the monetary value that was missing, due to their unfortunate lack of occupation.

It is widely considered amongst existing literature that economic recession and turbulence has a significant impact on an individual's desire and susceptibility to invest in fraudulent financial schemes. As highlighted by Levi and Smith (2011), Anderton (2022), and Christopher Bradley and Hannah E. Oates (2022), times of economic uncertainty and recession, such as the global COVID-19 pandemic, usually lead to high levels of unemployment, leading to individuals seeking alternative solutions to monetary gains, hence heightened susceptibility to pyramid schemes and other financial fraud.

In addition to evidence based on literature review, all five experts interviewed in this study, mention unemployment as a factor that impacts one's susceptibility to participate in pyramid schemes, making unemployment a

major socioeconomic factor in the large-scale participation of Albanians in the pyramid schemes of 1996.

5.3 Income, Wealth, and Poverty

Pyramid schemes thrive in areas and situations where poverty is common and low levels of income are the norm. The population of Albania suffered from very low income, and wide-spread poverty in its communities. Such properties characterize low levels of well-being and constitute for an improved way of living.

The desire of individuals and communities to increase their incomes and wealth, and escape poverty-stricken conditions, led to many opting for the quick returns and high earnings that pyramid scheme firms offered. Similarly to the case of Albania, pyramid schemes saw a rise in popularity in Nigeria during a recent economic recession, where Jack and Ibekwe (2018) explore the factors leading to participation in the schemes. Jack and Ibekwe (2018) conclude that poverty and low income was a major reason for participants choosing to invest in pyramid schemes. This statement closely resembles that of primary data collected in this study, as experts referred to the wide-spread poverty and low income in Albania, as a factor that caused temptation amongst individuals and communities to invest in high return schemes.

Due to many Albanians living in poverty, and most having to support their families with low incomes, the pyramid schemes that offered high monthly interest rates became appealing to that part of the population, leading to their vulnerability and high participation in the pyramid schemes.

5.4 Community Cohesion and Tight-Knit Communities

Pyramid schemes work in a way where participants are rewarded for referring and bringing in new members to the schemes. It is most beneficial for pyramid scheme organizers that they attract as many participants as possible, which

leads them to incentivize already existing members, through monetary rewards or otherwise, with the hopes of maximizing participation. Previously mentioned factors such as lack of financial literacy, unemployment, and poverty are characteristics that define individual or community conditions or capabilities. However, existing literature and primary data have shown that individuals and communities can become vulnerable to financial fraud through targeting and exploitation utilized by organizers.

Examples across regions in the United States and Canada show that pyramid scheme organizers target tight-knit communities to maximize participants. This is explained through the high level of sociability in those communities, as well as the influence that certain members in communities have on others. The example of “Elite Activity”, explained by Leonard (2021), and the targeting of high religious figures, is only one of the many examples which suggest that highly social and close communities suffer from financial fraud vulnerability.

In the case of Albania, experts discussed the role of social capital and the role of a cohesive community in the high participation of Albanians in pyramid schemes. Ultimately, primary data concluded that the formation of Albanian society, comprising of tight-knit communities built from families and friends, and the high sociability that those communities contained, meant that whether it was on purpose or not, pyramid scheme firms in Albania found a perfect exploitative opportunity to maximize participation. This is supported by the examples and evidence provided in the literature review.

5.5 Other Factors

Experts emphasized the scale of participation in pyramid schemes during the crisis multiple times, constantly stating and reminding that almost everyone participated in the schemes. This signifies that additional factors come into play as an extension of the socioeconomic factors mentioned above. Political reasons were mentioned by experts and existing literature alike. Bezmer

(1997) and Jarvis (1999) both touch on the negligence of the government towards pyramid schemes, explaining how the government ignoring the schemes and some politicians promoting them led to the general public acquiring an increased vulnerability and trust towards the pyramid schemes.

An additional factor mentioned by experts and literature review is the income of migrants invested in pyramid schemes. As the citizens of Albania were freed from the communist regime of Enver Hoxha, many took upon the opportunity to flee the country and migrate to neighboring countries. As the schemes became more popular in the south of Albania, where the border to Greece lies, a country where many Albanian citizens migrated to, participation also increased. Many migrants at the time were supporting their families from abroad, as their higher incomes would provide a better life for those still living in the country. Once hearing of the immense returns of the newly formed pyramid schemes in Albania, many migrants, particularly in the south, chose to return and invest in the schemes. This influx of migrant income invested in pyramid schemes led to higher participation and in the end higher overall losses.

6 Conclusion

The Albanian crisis of 1996-1997 is a unique case study, where a large portion of the population opted to invest in fraudulent schemes due to many occurring and unfortunate circumstances. As Albanians recover from their losses to this day, and the country aims to improve its social and economic landscape, many lessons can be derived from the crisis, including several factors that contribute to individual and community vulnerability towards financial schemes. This research was conducted with the aim to identify the socioeconomic factors that characterized the Albanian population, affecting their participation in the pyramid schemes formed.

Throughout the literature review of this study, different studies on pyramid schemes and financial fraud susceptibility were presented, shedding light on the different factors that can impact an individual's decision to participate in pyramid schemes. Through general individual studies, examples, and external case studies, a mixture of different perspectives has been extracted and utilized to better conclude this study and facilitate in answering the research question.

Additionally, primary data was made use of in this study, through the form of five expert interviews. Through careful consideration and an extensive selection process, which was based on the knowledge, work experience, and personal experience of the interviewees, all five experts were able to provide well informed information based on expert knowledge and personal experience, facilitating a detailed and accurate study.

Through the employment of a qualitative research approach, this study utilized the already existing literature and primary data collected through expert interviews, to present the socioeconomic factors that led to the rise of the financial pyramid schemes in Albania, as presented in the discussion section of this research.

To conclude this research, the rise of pyramid schemes in Albania, and their high levels of participation, are attributed to four socioeconomic factors. The lack of financial literacy amongst the population, led to many not being able to identify the mechanisms of the schemes and being unfamiliar to the financial market, therefore choosing to invest their earnings and savings. In addition, high levels of unemployed individuals meant that many had to search for other means of monetary gain, therefore opting to put their trust in a newly formed informal financial market. Furthermore, the wide-spread poverty throughout Albanian communities, and the low income that the employed received, made the high promised returns of pyramid schemes appealing. Lastly, the high

sociability and formation of tight-knit communities in Albania, created an opportunity for pyramid scheme firms to exploit the population, and in consequence, lead to a state of anarchy in 1997.

6.1 Limitations

The main limitations of this study come in the collection of data and the gaps of existing literature in certain areas. Firstly, the experts chosen, all came from a very similar educational and work-experience background, mostly related to finance and banking. This study would have benefited from the expert opinion and knowledge of a more diverse selection of interviewees, specifically experts on social studies. Nevertheless, as previously mentioned, the selection process took into consideration many factors, including first-hand and personal experience of the crisis, which meant that the pool of experts to select from was scarce.

Another limitation of this study comes in the existing literature. Although studies conducted on socioeconomic factors such as occupation, poverty and education are present in existing literature, there is a gap in literature when it comes to other social factors such as age, gender, religion, and more. Nevertheless, both limitations have been acknowledged as this research was being conducted, to provide an accurate and detailed discussion and conclusion.

6.2 Recommendations

With the aim of maximizing accuracy, it is recommended that further research on this topic focuses on gathering a larger and more diverse number of experts, to assess a larger number of perspectives. The opinions and knowledge of interviewees that possess social work experience and knowledge, would provide an additional layer to the primary data collected.

A different research approach to the study is also recommended. Due to the lack of research in this field, a widespread survey in the country of Albania utilizing a quantitative approach would be beneficial. The use of a quantitative approach would allow for the opportunity of statistical data to be analysed and perhaps the emergence of concrete evidence on the factors that made individuals susceptible in the Albanian pyramid scheme crisis.

In addition, it is recommended that more studies focus on assessing factors such as age and gender, and their susceptibility to pyramid schemes, to further our understanding on this topic. Furthermore, the case study of Albania must be studied in detail in terms of pyramid scheme susceptibility, as it provides valuable and crucial knowledge on the topic.

6.3 Implications

Through a thorough analysis of the case study of 1996-1997 Albania, this study has assessed the link between multiple socioeconomic factors and heightened susceptibility to financial fraud. The findings and results of this study can be utilized in the prevention and protection of individuals and communities from financial fraud.

An increasing market of pyramid schemes disguised as multi-level marketing schemes, in addition to advancements in technology and usage of social media networks, have led to a dangerous environment for individuals and communities in the present-day. This research, through the utilization of the case study of Albania, provides information on important socioeconomic factors that affect individuals and communities today, with the hopes of facilitating and protecting a safe financial environment.

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Appendices

Appendix 1 – Interview Questions

1. How would you like to be identified in the thesis? This can be your name and/or position and/or a description of your relevant qualifications.

2. How would you describe the state of the Albanian economy leading up to the events of 96-97?

3. In your own words, please describe the Albanian pyramid scheme crisis of 1996-1997.

4. In general, what made Albanian citizens so susceptible to these pyramid schemes?

5. Which individual-level characteristics best predicted participation in the pyramid schemes?

Income? Wealth? Occupation level? Education level? Gender? Age? Relationship status? Minority status? Religious affiliation? Other?

6. Which community-level characteristics best predicted participation in the pyramid schemes?

Affluence? Poverty and deprivation? Unemployment rates? Economic inequality? Infrastructure provision? Other?

7. What role was played by social capital (e.g., levels of social support, community cohesion, social participation)? Did it rather protect individuals from engaging, or encourage them to do so?

8. What are the characteristics of individuals who did not participate in the pyramid schemes?

9. Which socioeconomic groups were most severely affected by the crisis?

Are they the same individuals that participated in the schemes, or are there differences?

10. For each of the individual- and community-level characteristics that you identified as making people susceptible to pyramid schemes, how do you think that factor has changed since the late 1990s?

Are Albanians still susceptible? What are the priority areas that should be concentrated on?

11. Zooming out from Albania to the wider world, what do you believe makes people vulnerable to pyramid schemes in general, including MLM schemes?

Appendix 2 – Interviews

Interview 1

1. How would you like to be identified in the thesis? This can be your name and/or position and/or a description of your relevant qualifications.

My name is Elton Haxhi, I am currently the CEO of Nexia Albania, Senior CPA, and Business Consultant. I am a Certified Chartered Auditor since 2001 with extensive experience as a statutory auditor, accountant, and tax consultant in Albania. I have also served as a member of the Public Oversight Board of Albania from 2009 to 2013 and as an adviser to the Audit Committee of the Central Bank of Albania. Additionally, in 2017 I was named deputy minister of finance and economy in Albania.

2. How would you describe the state of the Albanian economy leading up to the events of 96-97?

The economy of Albania throughout the 1990s suffered quite a bit, especially during the first few years of transition. Although the economic situation in Albania balanced out a bit during the mid 1990s (lower inflation, lower unemployment), the country and government were still figuring out certain things, as many institutions (such as banks) and key properties of a free market economy were missing,

3. In your own words, please describe the Albanian pyramid scheme crisis of 1996-1997.

Almost everybody participated in the schemes during 1996-1997 due to the very attractive interest rates offered. Although the rates were unreasonably high and the risk was obvious, people were willing to participate due to peer pressure. Unemployment was high, economy was weak and schemes were a good option to earn some money. Lack of financial literacy also helped. Several people sold their houses and the money they got was invested in the schemes. At the end of 1996 some institutions started to speak about this, such as IMF, and Bank of Albania. Although these concerns did not receive great audience. The schemes started to be at default at the end of 1996 beginning of 1997. Those people that started investing early earned gains. Latecomers lost. Those that sold their houses lost the most.

4. In general, what made Albanian citizens so susceptible to these pyramid schemes?

Factors that could impact the susceptibility of Albanians include economic instability, lack of financial literacy, promises of high returns, lack of banks/financial institutions and trust in informal networks.

5. Which individual-level characteristics best predicted participation in the pyramid schemes? Income? Wealth? Occupation level? Education

level? Gender? Age? Relationship status? Minority status? Religious affiliation? Other?

Income and Wealth, as moderate to low-income individuals were particularly susceptible, as they were more likely to be excited of the promise of high returns and a chance to improve their financial situation.

6. Which community-level characteristics best predicted participation in the pyramid schemes? Affluence? Poverty and deprivation? Unemployment rates? Economic inequality? Infrastructure provision? Other?

Poverty, as lack of economic opportunities prompted individuals to seek out risky financial opportunities promising high returns.

7. What role was played by social capital (e.g., levels of social support, community cohesion, social participation)? Did it rather protect individuals from engaging, or encourage them to do so?

Peer pressure through tight knit communities influenced pyramid scheme susceptibility. Therefore, I believe social capital encouraged individuals to invest in the schemes.

8. What are the characteristics of individuals who did not participate in the pyramid schemes?

Some characteristics in individuals who did not participate in the schemes would be financial literacy. Nevertheless, there were individuals from every background that invested in the schemes.

9. Which socioeconomic groups were most severely affected by the crisis? Are they the same individuals that participated in the schemes, or are there differences?

I would reiterate that low-income households were the most vulnerable.

10. For each of the individual- and community-level characteristics that you identified as making people susceptible to pyramid schemes, how do you think that factor has changed since the late 1990s? Are Albanians still susceptible? What are the priority areas that should be concentrated on?

I would say that through the years, Albania has seen vast improvement both at an individual- and community-level, as unemployment rates have gone down and income has increased. It is important to provide individuals with basic financial education.

11. Zooming out from Albania to the wider world, what do you believe makes people vulnerable to pyramid schemes in general, including MLM schemes?

I would say that accessibility to social media might have an impact on the susceptibility of the younger generation when it comes to various online scams.

Interview 2

1. How would you like to be identified in the thesis? This can be your name and/or position and/or a description of your relevant qualifications.

My name is Evelina Çeliku and I hold a University Degree in Statistics from Faculty of Economy, of the Tirana University. I hold a PhD in Econometrics, since 1997. I work at the Bank of Albania since 2000, and I'm currently Head of the Economic Analysis Sector, at the Monetary Policy Department. I also have an academic career starting from 1989, as a full-time lecturer in disciplines of Statistics, Econometrics and Data Analyses at the FE-UT. Since 2000, I'm a part-time lecturer of Econometrics at the Statistics and Applied Informatics Department (FE-UT).

I'm Member of the Advisory Board of the Scientific Journal of INSTAT: "RESEARCH - Journal of Statistics and Socio-Economic Analysis", since 2018. My research interests include empirical studies on: macroeconomic analyses; modelling and forecasting; monetary policy; and surveys designing and data analyses. In line with my research interests, I have participated in several national and international workshops and conferences, and I'm authored and co-authored various articles and studies, mainly published at the BoA publications series.

2. How would you describe the state of the Albanian economy leading up to the events of 96-97?

Analyzing the economic situation in Albania before transition, Albania was not only among the least known and poorest countries in Europe, but probably the only one in the continent with standards of living similar to Third World countries. Albania was a communist country with similar features to other socialist countries, especially to those of Southeast Europe. However, Albania had specifics that distinguish it from other former communist countries in Europe. For more than 45 years the model of communism system in Albania was based on: (i) the complete reliance on the central planning principles; (ii) the reduction and the elimination of almost all alternatives of the private property, through the complete nationalization of industry and the collectivization of agriculture; (iii) the extreme implementation of the self-reliance and economic independence principles; (iv) the almost complete absence of the democratic institution and tradition as one of the worst consequences of the extreme class struggle. These led to a strict isolation of the country from the foreign influences and information making the transition process even harder than in the other former socialist countries in Europe.

The beginning of the transition in 1991-1992, faced the country in a tremendous economic and social poverty level. The majority of the population was totally unfamiliar with the rules, laws and practices of the open market economy and its institutions.

Albanian Economy at a glance. In 1992, GDP real annual growth shrank by 7% and the annual inflation rose to triple digits (236.5%). During 1993-1995 the macroeconomic conditions have been improved in terms of growth, inflation stabilization, early privatization of the agriculture, retail trade sector and small- and medium-sized enterprises, and improved financial discipline at the budgetary state enterprises, improved fiscal and monetary indicators under IMF programs and the external imbalances were reduced as well. The real annual GDP growth was almost 10.3% in average terms during 1993-1995. The average annual inflation recorded a double-digit rate (17.5%), decreasing from 30.9% in 1993 to 6% in 1995. Domestic saving from -14.9% of GDP in 1993 increased to 11.3% of GDP in 1995. For the same years, investments, mainly the private ones, also accelerated from 3.7% to 12.8% of GDP. The fiscal deficit fell from 14.4% to 10.3% of GDP, due to the sustainable growth of revenues and increased discipline in carrying out of budgetary expenditures. In terms of monetary indicators, the broad money growth from 40.6% in 1994, increased to 51.8% in 1995, meanwhile the credit growth for the private sector slowed down from 61.4% to 15.9%. Current account balance improved from -6% of GDP in 1994 to -2.4% of GDP in 1995. The gross international reserves increased rapidly from 1993 to 1995 covering respectively 2.3 and 3.4 months of imports of goods and services. Nominal GDP from 1.2 billion of U.S. dollars in 1993, doubled in 1995 (2.4 billion of U.S. dollars), meanwhile the depreciation of Albanian Lek against the US dollar, was more gradual from 1993 to 1995 (100.9, 95 and 94.5 Lek/US dollar, respectively).

A general view on demographic and social indicators. In mid-1995 the total population was about 3.5 million inhabitants; 37% of population lived in urban

regions; the life expectancy at birth was about 73 years and the infant mortality was 31 deaths per 1000 births.

The socialist 'heritage' regarding society and economy. Albanian society was completely inexperienced with the new system of the open market economy. Under the serious structural problems the economic transformation of Albania was an ambitious objective to achieve.

Carrying out reforms would require combining economic and legal knowledge at governmental body and domestic actors' level, supported by the main international observers and organizations. This would also require the achievement of a social consensus of Albanian people, regarding long term advantages and transitory consequences of the reforms.

The implementation of the stabilization program, with partial price liberalization reform started in 1992. In addition, a discipline on budget deficit and the implementation of an effective monetary policy, liberalization of foreign trade, reforms on privatization and designing a new social protection network, the establishment of tax system and a legal framework for market economy started to be implemented in Albania. Immediate measures were undertaken such as: no subsidiary on agricultural products; a minimum limit on nominal salaries was established; a new customs system was established; non-rentable enterprises were almost closed.

In the framework of transformations, an important and inevitable process was the privatization process. However, it was done rapidly, beginning with small and medium enterprises and agriculture as well. The level of reform development in economy and massive privatization process were not accompanied with privatizations in banking system.

Problems in the Banking and Financial Sector. Based on law on Bank of Albania in 1992, the two-tier banking system was introduced. Bank of Albania (BoA) or

the Central Bank - was established as the first-level bank or the only one in the country. National Commercial Bank, Agriculture Commercial Bank and Savings Bank were second-level banks or commercial ones. As a result of licensing of some commercial banks, the Albanian banking system was expanded, and there were 8 banks operating in Albania during 1996.

The three commercial banks with state capital dominated the banking market. The state owned capital banks held 90% of the total deposits and 88% of the domestic loans, offering real positive yields on deposits, but they performed a very restricted financial intermediary activity and had high portion of bad loans in their portfolios, making them subject of credit ceiling set from Bank of Albania. The limited number of the commercial banks in the country with their branches in the main cities only, didn't show any interest in attracting consumer deposits and were more focused in performing foreign exchange operations and trade finance transactions. Furthermore, the low level of the lending activity in the economy, as an inefficiency of the banking system, encouraged the lack of the financial intermediary function from the banks.

The payment system had many shortcomings. It was unprepared for the flow of usual transactions between agents through banking channels, and most all, it was very slow. The average time for transactions between accounts at different branches of the same state-owned bank was 5-6 days, and the completion time for transactions between accounts at different state-owned banks could exceed 15 days. Because of abovementioned problems, a general distrust on the banks, and the lack of financial literacy, the public tended to hold an unusually high proportion of their savings in cash (at the end-1995 the currency/deposit ratio was 64%). Therefore, the citizens were on lookout for alternative investment opportunities.

Lending activity was very low. On the lending side, the banks' problems were even worse, leading to the emergence of an informal credit market. Banking supervision and regulations was underdeveloped. The borrowers' behavior under which loans from state banks were often considered by them to be non-repayable, accelerated the rapid growth of bad loans. BoA imposed credit ceiling strategy, in order to control credit and loan collection performance for the each bank. This strategy, on one hand prevented the expansion of bad loans, but on the other one banks did not meet the demands of the private sector for credit. Furthermore, the low level of the lending activity in the economy, as an inefficiency of the banking system, encouraged the lack of the financial intermediary function from the banks. This environment offered the opportunities for some informal financial intermediaries to enter in the financial market, already started with informal exchange market which was openly tolerated by the state since the beginning of its activity.

The roots of the flourishing pyramid schemes would be found at the financial informal market in Albania, favored by fragile macroeconomic conditions, enormous legal gaps, lacks in consolidated formal market and its institutions and by a very limited level of the financial literacy of the wide public. More specifically, the huge expansion of informal market and pyramid schemes concerned first of all with the lack of structural reforms in banking sector and insufficiency of formal financial system to support the economy. Second factor is related to the large amount of foreign currency in country. The third one is related to the weak legal system, political interference in financial sector supervision, and inadequate coordination among supervisory institutions and government. The fourth one consists of the low financial literacy of the wide public in Albania. In addition a specific condition is related to the political situation after the 1996 parliamentary elections considered as manipulated. As a result, the power of government was destabilized, and consequently making

important decisions, especially against pyramid schemes, was quite dangerous for the future of the government.

3. In your own words, please describe the Albanian pyramid scheme crisis of 1996-1997.

From one side banks couldn't satisfy the private sector appetite for credit and in the other one deficiencies in the regulatory framework were considerable. In this environment, informal lending companies expanded quickly, accepting funds from the wide public and offering high tempting yields.

Since 1991 a number of pyramid scheme companies have been operated in Albania. They were spread in the whole country promising to provide enormous interests on deposits. Poor Albanians, with low salaries and a high number of unemployed people in their families, without other income sources and with missing information on private financial institutions, were tempted by high profit interests and fast enrichment. Also, people trusted the slogans coming from these pyramid schemes through written and visual media of the time. Neither state institutions kept their distance from these companies, and nor did the opposition, which could make use of them to strike the government.

Officials and high representatives of the USA, the IMF, the World Bank and the Governor of BoA, appealed to the Government and the President in the fall of 1996 to stop the activity of pyramid firms to take control as soon as possible of the Albanians' deposits, warning them of what might happen with their savings from this fraudulent activity. The Government did not respond immediately, probably because the President and the Prime Minister did not want to cause problems and complaints ahead of the local elections in October 1996.

From 1992 to 1997 approximately 25 such fraudulent firms were established and operating in Albania: Gjallica, VEFA, Populli, Demokracia Popullore-Xhaferri, Kamberi, Cenaj, Silva, Malvasia, Kambo, Grunjasi, Dypero, Bashkimi,

Beno, Pogoni, B&G, Kobuzi, Arkond, Adelin, A.Delon, Agi, M.Leka Company, Global Limited Co., Çashku, Sudja.

The major ones were as follows:

VEFA, established in October 1992. The President of the company was Vehbi Alimuçaj. The business activity started as a commercial company. Later on, he invested in supermarkets, restaurants, bitumen mine, built a mall, and established a TV station. It operated more than 200 businesses and employed 10,000 people. The auditors believe that VEFA took in at least 700 million US\$ in deposits, and probably, over 1 billion US\$. When it was taken over, liabilities, excluding some 200 million US\$ in accrued interests, amounted to 250 million US\$, while its assets were generously estimated at 300 million US\$.

Gjallica, started the activity as currency exchange in 1991. The President of the company was Shemsie Kadria settled in Vlora. Gjallica owned enterprises in trade, medicine and tourism, carried out some real investments, financing the construction of supermarkets, office complexes and gas stations. Gjallica was something of an elite company, with about 170.000 investors at its peak.

Populli, with Bashkim Driza as president. Started its activity as a charitable foundation in early 1996. It attracted 400.000 investors. At the time of its collapse liabilities were over 150 million US\$.

Xhaferi, with Rrapush Xhaferin as president, introduced as charitable company, attracted about 1.500.000 investors. At the time of its collapse liabilities were over 300 million US\$.

Sude, established by Maksude Kasemi in 1993. Since then to 1996, she operated half legally. Liabilities variously estimated at 40-90 million US\$.

The schemes reached their peak in 1996, when in January top largest companies paid on monthly basis an average interest rate of 5% (100% on annual basis). Competing for funds and trying to attract more people they

hiked the interest rate at 8% (monthly). In early 1996, two new “money collectors” “Xhaferri” and “Populli” were created. These two companies accounted for approximately 2 million contributors out of a population of 3.5 million and with another “ghost” company, “Sude” that operated in illegality for almost 3 years and had no real investment at all. At that time, they offered an interest rate that reached an average monthly rate of 16%. In September of 1996, interests offered reached at an unbelievably level (30% in a month), while in November, “Sude” made irresistible offers on doubling principal in two months.

Firms such as “Sude”, “Xhaferri” or “Populli”, were from the beginning of their activity, authentic Ponzy schemes also named as pyramids ones. These firms offered an extremely high rate of return in a short period of time. Most of them didn’t make real investment of the funds collected from the people. They were run by a central promoter that kept the “investment strategies” in darkness. As a result, they had neither assets nor investments.

Some others initially, were not illegal and fraudulent. Some of these firms were registered as legal businesses and some other as foundations, but they were not licensed to run banking/financial activity. These companies were licensed as businesses and operated under the Civil Code, which allowed them to borrow from other companies or individuals. However, state didn’t audit them and these companies did not appear to pay the tax on profit. Some of the companies made real investments in the country, mainly focused on real estate, construction and trade activities. The promoter hired people to interact with the participants in these schemes. Since in the starting point, liabilities exceeded assets.

4. In general, what made Albanian citizens so susceptible to these pyramid schemes?

These companies borrowed with interests varying from 10% - 30% and 50% in 1996 for months. Some companies invested the money in different areas, on their behalf. Investments were mainly made in sectors like construction, trade, tourism, transport, fuel, etc., so as to show the creditors that it was a great profit opportunity. These companies were promoted as success stories in the Albanian business. They employed tens of people, invested mainly on visible assets, were focused on advertising their activity, made many donations on art, culture, education and sports and most of all supported the political campaigns in country. Based on their incomplete, confusing and unclear documents, and the fact that they work with several balance sheets in order to hide their financial frauds, it is difficult to understand whether the most of these firms had solvency – thus, their profit was higher than debts – or they were pyramid schemes since the very beginning.

Tempted by high interest rates, Albanian people trusted their money to these firms hoping for a fast increase of their incomes. They invested several times in some companies, making their investment on pyramid schemes as ‘an entertainment activity’. Pyramid schemes in Albania represent a specific phenomenon as related to the considerable size of popular involvement in them: at the time of the collapse of the schemes, they had more than 2 million depositors (out of a total population of 3.5 million).

During the second half of 1996, when these firms reached the peak of expansion, the amount of deposits in pyramid schemes was estimated at 1.2 billion US dollars, as half as the country’s GDP.

Such high involvement of people can be explained through some reasons:

- Albanian people were used to the centralized economy had no idea of how private financial institutions worked;

- Those who understood the way of pyramid schemes operation, took the risk in multiplying their incomes, just like 'gambling activity';
- People who were unemployed and had no incomes, those who had very low salaries believed that “the blank cheque” as promised was appearing and it was their opportunity to become rich quickly.
- The huge publicity to the pyramid schemes in written media and TV served as assurance to people against any risks.
- Non-response or total indifference of state against the activity of these companies, made people believe that these firms were in continuous collaboration with state institutions and the depositors would have had the support of the government in every situation.

5. Which individual-level characteristics best predicted participation in the pyramid schemes?

Lack economic and financial literacy; Low income; High Unemployment.

6. Which community-level characteristics best predicted participation in the pyramid schemes?

Low-income community; the high uncertainty of being employed; economic inequality; and the fact that people were easily manipulated by politicians. The latter has to do with the fact that the activity of the firms was carried out openly, often politicians and government representatives were on the side of the owners and managers of the firms, giving visually and psychologically a kind of state guarantee for the current and potential depositors in the near future.

In addition, the people were easily manipulated because most of them participated in these schemes came from socialist heritage.

Different categories of people invested their savings/money: the unemployed in urban regions after the closure of non-profitable state-owned enterprises,

which subsequently came out even from social protection programs; unemployed farmers; unemployed people as former employees in the old public administrations network, already reorganized; emigrants; intellectuals; and even politicians and foreign diplomats.

The network of pyramid schemes covered whole country, but the largest number of depositors and deposits came from the southern part of Albania. This is due to the large number of emigrants and their remittances, as well as the fact that a part of the southern population neighboring Greece and Italy could easily be involved in multiplying profits through illegal, contraband and criminal activities.

7. What role was played by social capital (e.g., levels of social support, community cohesion, and social participation)? Did it rather protect individuals from engaging, or encourage them to do so?

There wasn't any social support. On the contrary, social psychology encouraged individuals and families, inside and abroad, to become even more active involving their funds and savings in these firms. In addition, there was a huge publicity in media for these schemes which was helped with the endorsement of the government and politicians to these financial bubbles. The government support was implied by not demanding these firms to pay taxes or to initiate a fiscal evasion investigation towards them.

People ran to sell their houses and "invested" all of the money; capital injected from outside the border either in a form of a debt required from family member inside the country or invested by immigrants on their behalf by family members, farmers sold their livestock and deposited the money in the firms.

8. What are the characteristics of individuals who did not participate in the pyramid schemes?

People who were skeptical about the way the schemes worked didn't participate. In general, people working at the banking sector, at the Ministry of Finance, at the justice system and most of the professors at University, etc.

9. Which socioeconomic groups were most severely affected by the crisis?

All groups were affected by the crisis. People lose their savings; houses; money earned in emigration; suddenly they turned into debtors; a part of young people lost the opportunities to study, obliged to work or to emigrate helping their families already in debt. People faced very serious social and mental health consequences due to the irreparable loss of savings and property in these schemes.

10. For each of the individual- and community-level characteristics that you identified as making people susceptible to pyramid schemes, how do you think that factor has changed since the late 1990s?

Are Albanians still susceptible? What are the priority areas that should be concentrated on?

The Albanian case was a highly destructive scheme because of the size of the population involved in these schemes and the state indifference against them. Because of the collapse of the financial schemes, Albania went to an unprecedented civil war, which caused many casualties, social conflicts and economic, political and reputational damages in the country. Lack of financial market experience and information, and education, weaknesses in governmental leadership, the absence of a complete legal framework and the inappropriate inherited public's expectations were factors that established these destructive schemes. Albanians learned important lessons from this shocking experience.

The general public today has a higher level of financial education and is more sensitive regarding consequences from these schemes. The most of the population is turning more and more to the banking system.

Younger generations have already learned from the previous ones about the schemes, crises, the civil war of 1997 and their tremendous consequences.

In this regard the history of pyramid schemes in Albania should be treated as a case study in schools, in order to know their “rise and fall”, characteristics and consequences and then to prevent similar phenomena in the future. At the same time, the banking system should support citizens with financial services and new products that they do not try to find solutions in informal markets. Central bank should be careful and increase supervisory skills on the banking system and financial institutions as well.

11. Zooming out from Albania to the wider world, what do you believe makes people vulnerable to pyramid schemes in general, including MLM schemes?

Low income; Low financial literacy; Appetite to have quick profits; Low financial intermediation of the banking system to the economy and to the wide public.

Interview 3

1. How would you like to be identified in the thesis? This can be your name and/or position and/or a description of your relevant qualifications.

My name is Delina Ibrahimaj, and I am the former Minister of Finance in Albania, and current Minister of State for Entrepreneurship and Business Climate.

2. How would you describe the state of the Albanian economy leading up to the events of 96-97?

Throughout the 1990s, the Albanian economy suffered much of the same as it did in the year prior to the 90s, during the communist regime. Especially in the first half of the 1990s, the economy experienced very high inflation and unemployment, which was the result of the economic shift that was taking place.

3. In your own words, please describe the Albanian pyramid scheme crisis of 1996-1997.

The crisis of 1996-1997 saw a lot of pyramid schemes establish, and the people of Albania were desperate to invest and generate income in an easy and care-free way.

4. In general, what made Albanian citizens so susceptible to these pyramid schemes?

The Albanian people were so susceptible because of the fact that a lot of them were unemployed at the time, and even those who were employed, were receiving very low income.

5. Which individual-level characteristics best predicted participation in the pyramid schemes?

As I previously mentioned, low income and high unemployment were a factor.

6. Which community-level characteristics best predicted participation in the pyramid schemes?

In a community sense, Albanians have the tendencies to spread word in their close communities and even push each other to do things. That could have had an impact in the success of the pyramid schemes.

7. What role was played by social capital (e.g., levels of social support, community cohesion, social participation)? Did it rather protect individuals from engaging, or encourage them to do so?

I believe low levels of social support and social participation in communities had an effect in encouraging people to invest in pyramid schemes.

8. What are the characteristics of individuals who did not participate in the pyramid schemes?

The people that did not participate in the schemes were mostly those that understood the financial impossibility of pyramid schemes, usually those who had received better quality or higher education.

9. Which socioeconomic groups were most severely affected by the crisis? Are they the same individuals that participated in the schemes, or are there differences?

Households with low incomes were probably mostly affected.

10. For each of the individual- and community-level characteristics that you identified as making people susceptible to pyramid schemes, how do you think that factor has changed since the late 1990s? Are Albanians still susceptible? What are the priority areas that should be concentrated on?

In the present day, Albania has improved in many areas, as income has risen, and unemployment has improved. Albanians are less susceptible nowadays and that can be attributed to the positive advancements that the country has done to improve education and economic indicators.

11. Zooming out from Albania to the wider world, what do you believe makes people vulnerable to pyramid schemes in general, including MLM schemes?

Poor economic circumstance make people vulnerable to pyramid schemes. In terms of MLM schemes, a lot of them surfaced on social media especially in the biggining of the COVID-19 pandemic and the recession that it caused. There is a link between economic recession (and the negatives that it brings such as higher unemployment, inflation, low income), and pyramid scheme susceptibility.

Interview 4

1. How would you like to be identified in the thesis? This can be your name and/or position and/or a description of your relevant qualifications.

My name is Erlind Mero, and I have a University Degree in Finance and Accounting from Tirana University. In the last months of my university studies, I was hired from GTZ (Deutsche Gesellschaft für Technische Zusammenarbeit), where I worked for more than 1 year. After working for 3 years for a German owned company in Albania as General Manager, I became the Chief Financial Manager for Alcatel Italia Albania branch, and later on moving to become Chief Accountant at the Albanian American Enterprise Fund in Tirana. Since January 2006, I am working as Principal Officer, Loan Administration, at Black Sea Trade and Development Bank in Thessaloniki, Greece.

2. How would you describe the state of the Albanian economy leading up to the events of 96-97?

Due to their own small size and lack of recognizing factor, Albania for centuries was unknown and even considered as “geographical expression.” The support of the Austro-Hungarian empire helped Albania against its neighbors who had strong political alliances with Great Britain, France, and Russia. Since Albania’s support came from the defeated side during WWI, it brought the country on

the verge of extinction, and there was no real settlement on its borders until the treaty of 1926.

The establishment of communist dictatorship in 1945, which led a feudal society to socialism, eliminated all private property (forms and ideas) and later isolated the country from any kind of information or connection to the world. These years were characterized by short term alliances with Russia and China. All of them ended in the worst possible ways and the impact on the country was catastrophic. The economy was developed through state centralized system, and with 5 years planning program. The fall of the communist bloc found the country in a desperate poverty status, and with its population totally cut out of market and financial practices and knowledge.

Working in an environment where most of my colleagues comes from former communist countries (Russia, Ukraine, Bulgaria, Romania, Moldova, Georgia, Armenia, and Azerbaijan), we share our experiences and thoughts on the socialist and communist path that shaped our countries after WWII. As per unanimous agreement among myself and my peers, Albania is considered the country who suffered the most harsh and violent dictatorship in the entire former communist bloc.¹

The transition to the new era of the market economy after the socialist experiment was fast and can be considered successful, if you take into consideration all the factors mentioned above. Many immigrated to Western Europe, and whoever has an idea or a spirit for investment started exploring in the new market economy.

¹ *This is an opinion through shared personal experiences with my colleagues in an international financial institution and does not constitute a fact.*

Disintegration and the sanctions imposed on the Federal Republic of Yugoslavia created another important source of income, which was smuggling.

The financial system was outdated and not relevant in the new economy. The country had three state owned banks which were built for the centralized economy. Their ability to act and perform under new market practices was limited by credited ceilings and rules imposed by the Bank of Albania.

Unable to satisfy their needs, new investors started to look for other ways of financing their needs for liquidity and working capital. The number of immigrants working abroad, (most of whom were young and eager to work) and their remittances to their own families in Albania created a stock of liquidity that was not channeled through the country's banking system.

These factors (non-existent banking lending possibilities, remittances, and other incomes like smuggling incomes) led to the creation of an informal credit market. In the beginning, this market was shy and kept a low-profile using family ties and friendship. The lack of governance in the financial market made it easy for them to develop rapidly since no one was able to identify the rules or responsibilities of who has to control this informal credit market.

3. In your own words, please describe the Albanian pyramid scheme crisis of 1996-1997.

Pyramid schemes (mostly identified as Ponzi schemes) works mostly on the perception of high-end return for your deposit. In some cases, they present showcase investment to reel in new investors and spread their existing base of investors. As soon as this base is large enough, the new investors pay for the initial ones, and so the news about these high returns spread and more new investors offer their liquidity to the scheme. The scheme keeps rates and returns until the moment that they are able to pay back their initial investors. When this is not possible anymore, the only feasible option is to raise the interest rates in order to increase the number of new depositors.

The other fact that has an important impact on the increase in rates was also the rates offered by competitors on this market.

In my personal opinion, the beginning of this informal credit market was initiated by the needs of real business-oriented companies in the market like Vefa, Kamberi, Silva, Gjallica or Cenaj. They were operating in the market since the beginning of new economy establishment around 1992. Their need for working capital made them offer in the beginning some interest rates doubling the interest that the people will get if they deposit this money in the state-owned banks. Later they were forced to increase this rate to 4-5 percent per month and at the beginning of 1996 to 6 percent per month and some months later offering 8 percent per month.

This corresponds to the time when new actors entered the market. The beginning of 1996 is the time when real Ponzi schemes fiercely smashed this informal lending market. Populli and Xhaferi foundations were offering 8-10 percent per month from the beginning and later Sudja marched in the market offering 12-19 percent per month.

These events meant that even if the first companies who were not set up as pyramid schemes by early 1996 were forced to become such.

The size and impact of these schemes can be misleading. To realize the level and impact in the life of several generations in the country, it has to be said that two third of the population was participating in these schemes lured by fast enrichment, and as per that time estimation these informal lending market wiped away up to 1.2 billion US dollars, or the equivalent of half Albania's GDP.

4. In general, what made Albanian citizens so susceptible to these pyramid schemes?

In the early ninety's, the knowledge of Albanian citizens about the financial market or market economy was almost equal to zero in the best-case scenario.

The fall of the previous economic centralized system brought a lot of unemployment and uncertainty among the population. Misleading politician declarations and economic experiments like “shock therapy’ made everything that constituted Albanian economy (industrial production, agricultural or any other activities) to be destroyed, since everything has to start from the ground up.

The lack of real jobs and possibilities of generating income from their employment, inflation, and low-income salaries directed most people to alternative options like pyramid schemes.

Unwillingness of the ruling and opposition parties to control and stop spreading of these schemes, even ignoring the red flags warnings of international institutions like IMF or World Bank, looking for their elections votes or their own personal financial benefits.

It was normal in that period to see government officials participate in the events of these firms or even working for them in case of opposition.

The lack of strong and clear government distancing their responsibilities from these schemes increased the general perception in the less educated part of population that the government it was supporting and was well aware of operational risks of these firms.

5. Which individual-level characteristics best predicted participation in the pyramid schemes?

Very Low Income

Very Poor and Close to Survival Status in terms of wealth

High Unemployment

Mediocre Education Level added up with lack of financial or economic knowledge.

Gender? Age? Relationship status? Minority status? Religious affiliation?

These factors were not as relevant on the participation on these pyramid schemes at the time. As mentioned before, 2 out of 3 Albanians participated in a way or another to this scheme.

6. Which community-level characteristics best predicted participation in the pyramid schemes? Affluence? Poverty and deprivation? Unemployment rates? Economic inequality? Infrastructure provision? Other?

Affluence? Very low-income people were the first who were attracted to these schemes.

Poverty and deprivation? Country it was already in desperate poverty by the end of 80's, and the transition events of early 90's affected more people and pushed them into a survival mode scenario.

Unemployment rates? With only a few exclusions like teachers or public administration employees everybody else becomes unemployed due to closure of non-profitable state-owned enterprises or farms.

Economic inequality? It was part of the entire process since everybody was looking to become someone of entirely different economic status. This added to the fact that fast accumulation of wealth made most people believe that they are more worthy than they really are.

Infrastructure provision? Other? The schemes were spread all over Albania, but the main number of depositors come from south of Albania which is explained with the fact that this area it was the most populated area and they have also the highest number of immigrants (together with their remittances) added to

the geographical position with EU countries like Greece and Italy were incomes were high.

7. What role was played by social capital (e.g., levels of social support, community cohesion, social participation)? Did it rather protect individuals from engaging, or encourage them to do so?

The participation of social support was not even an option. The chaotic status of the country and lack of any NGO in these years to help increase level of knowledge for this kind of phenomenon had played a vital role.

In the other end, as described previously, the determination of government authorities to provide clear indications that these activities were not supported or guaranteed by the state implied the countereffect to the general public: that it is not possible that the State is not supporting or is behind these schemes. Participation of high officials in activities organized by the big companies created the aura that the state is fully aware and guaranteeing all of them, even mentioning and creating the perception that some of these officials were the “real owners” of companies.

Social hysteria encouraged people to do things that not a normal society will permit their members to do. Today, it would be considered irresponsible or even crazy for someone to sell his apartment and invest the money in these firms, but in that time period it was more than normal. Whoever had a small apartment by doing so was able to have a bigger apartment in only 6 months. Or the case of a farmer who was selling their land or livestock and after some time he can multiply surface of number of livestock. At the time, such an outcome was crazy and unbelievable.

Furthermore, nobody was doing so, since on the day that they had to collect their principal together with interest they were simply reinvesting everything for another period.

Everyone was involved, retired with not enough money for their needs, public servants, immigrants who were pushing their family members to invest on their behalf all their savings from working abroad, people who were looking for personal debt from friends or relatives and rumors on that period mentioned even foreign diplomats who were seduced and invested on these firms.

Coming from a cultural environment of state-owned centralized economy where the leader defines your income and your future made many members of the community who had university degrees, of their own willingness, becomes participants of this collective madness.

The people were just doing what their subconsciousness suggests: stay in line and follow the crowd.

8. What are the characteristics of individuals who did not participate in the pyramid schemes?

Well-educated people who in addition to their own education also gained some professional experience working for international companies or more education and intellectual jobs abroad.

It is difficult to make a clean-cut division of whoever participated or decided to ignore these investments.

9. Which socioeconomic groups were most severely affected by the crisis? Are they the same individuals that participated in the schemes, or are there differences?

In the above questions it was covered groups that were involved on these lucrative high interest rates investments, but unfortunately the number of people affected by the fall of these schemes was higher since the domino effect of the schemes was unpredictable and unaccountable.

If it is not enough to lose life, health, houses, savings, or other personal belongings, most of the people lose something that is not measured in money. Young generations lost their opportunities to study, immigrants lost all their sacrifices, sweat and blood shed during their migration period.

Since the country was not able to provide any feasible opportunity in short terms, a new wave of immigrants flocked to Europe in order to start from scratch and help their families remaining in the country.

The real impact of this period will never be measured properly. As of today, unofficially, more than two third of population has migrated and number of Albanians residing within Albania is shrinking in scary numbers.

10. For each of the individual- and community-level characteristics that you identified as making people susceptible to pyramid schemes, how do you think that factor has changed since the late 1990s? Are Albanians still susceptible? What are the priority areas that should be concentrated on?

If you search for Albania through the searching tools in the web, most probably the year 1997 will appear as one of the major events related to the country.

How the Albanian people has understood the lesson is difficult to comprehend today. They have assessed on their own skin the impact and disgrace of them. Loss of people's lives, and auto destructive forces made the country look like the after-war movies scenes will remain in the country's conscience forever. Albanians of Generation Z, when research and reading about these events most probably will consider them as something so inconceivable and full of inflated facts. Unfortunately for us and fortunately for them, we are here to tell them that the reality was maybe even worse than what you read or find in web search engines.

The participation level and their losses (health and monetary) hopefully has taught a lesson to the government and controlling authorities not to ignore any future red flags and shows any weakness to cut off immediately any future attempts.

Empowering solid financial and banking systems added to improvements of legal framework has impact on the people to look forward through standard market practices regarding their investments and deposits. The banking system is functionally operating, and more people are using it on a daily basis.

11. Zooming out from Albania to the wider world, what do you believe makes people vulnerable to pyramid schemes in general, including MLM schemes?

Poverty and educational levels. If the people are extremely poor and lack adequate and proper education, they will always look for any possibility that can change their life immediately. These schemes are lucrative and easy-going, since in the beginning everybody believes that if he loses it will be minimal but if they win it will be a life changer.

Also, in the corrupted economies where the level of crediting or intervention of banking system is built up on extremely strict and driven by corruption, soon you will see creation of informal lending market.

Greed of immediate richness will make people close their eyes and be involved in criminal activities like pyramid schemes.

The big crisis of 2008 shows that nobody is immune from greed, vanity, and lack of self-conscience about what we are and what we do.

Interview 5

1. How would you like to be identified in the thesis? This can be your name and/or position and/or a description of your relevant qualifications.

I am Ardian Fullani, the former Governor of the Bank of Albania, a distinguished economist with extensive experience and expertise in the fields of economics and banking. During my tenure as Governor, I played a crucial role in enhancing financial stability and implementing regulatory reforms. My career is marked by significant contributions to modernizing Albania's banking system and integrating it with European standards. My deep understanding of financial systems and my leadership in navigating economic challenges have established me as a prominent figure in the Albanian financial sector.

2. How would you describe the state of the Albanian economy leading up to the events of 96-97?

Leading up to the events of 1996-97, the Albanian economy was characterized by a rapid transition from a centrally planned system to a market economy. Despite initial growth and ongoing restructuring reforms under the IMF and World Bank programs from 1991-1997, aimed at establishing a sound financial and banking sector, the economy became unstable. The banking system, price liberalization of energy and bread, judicial reforms, and public administration reforms were underway, but the collapse of fraudulent pyramid schemes triggered a severe economic and social crisis. Although Albania's economic fundamentals were in place, with inflation under control, a free-floating exchange rate, and a healthy banking sector, the crisis exposed significant vulnerabilities.

3. In your own words, please describe the Albanian pyramid scheme crisis of 1996-1997.

"The Albanian pyramid scheme crisis of 1996-1997 was a devastating blow to our transitioning economy. The unchecked proliferation of these fraudulent schemes led to widespread financial collapse, eroding public trust and plunging

the country into chaos. These challenges highlighted the mismatch between the complex financial operations and the low levels of financial education and inclusion in Albania. Additionally, state-owned banks remained a significant burden, hindering efforts to modernize the financial sector and align it with modern Western financial systems."

4. In general, what made Albanian citizens so susceptible to these pyramid schemes?

Several factors made Albanian citizens particularly susceptible to pyramid schemes. Due to decades of isolation under a centrally planned economy, many lacked basic financial literacy, making them vulnerable to promises of high returns. The rapid economic transition created instability and uncertainty, while an underdeveloped regulatory framework allowed fraudulent schemes to proliferate without oversight. Additionally, the reliance on informal networks, societal upheaval, and the allure of quick financial gains contributed to widespread participation in pyramid schemes, leading to the economic and social crisis of 1996-97.

5. Which individual-level characteristics best predicted participation in the pyramid schemes?

Income? Wealth? Occupation level? Education level? Gender? Age? Relationship status? Minority status? Religious affiliation? Other?

The individual-level characteristics that best predicted participation in the pyramid schemes included low financial literacy and education levels, driven by the lack of financial education during the centrally planned economy era for market economy. Economic instability and the promise of high returns made individuals across various income and occupation levels vulnerable, though those with lower financial understanding were particularly susceptible. All these factors strongly affected pyramid scheme participation, but the most important predictors were low income, non-inherited wealth due to the prior

communist regime, and occupation level. The pyramid schemes in Albania were based on the pure Ponzi scheme model, where later investors' money was used to pay earlier investors, a concept not invented by Albanians.

6. Which community-level characteristics best predicted participation in the pyramid schemes?

Affluence? Poverty and deprivation? Unemployment rates? Economic inequality? Infrastructure provision? Other?

The community-level characteristics that best predicted participation in the pyramid schemes included high levels of poverty and deprivation, high unemployment rates, and significant economic inequality. Communities with poor infrastructure provision and limited access to reliable financial institutions were also more susceptible. The pervasive economic instability and lack of robust regulatory frameworks further contributed to the widespread participation in these schemes.

7. What role was played by social capital (e.g., levels of social support, community cohesion, social participation)? Did it rather protect individuals from engaging, or encourage them to do so?

Social capital played a complex role in the participation in pyramid schemes. High levels of social support, community cohesion, and social participation often encouraged individuals to engage in these schemes. The strong trust within tight-knit communities and reliance on word-of-mouth recommendations made people more likely to invest, believing that their friends and neighbors' involvement was a mark of legitimacy. Instead of protecting individuals from engaging, social capital often amplified participation in fraudulent schemes. The continuance of pyramid schemes over a long period and their promise of extraordinarily high returns in a short time created a social frenzy, akin to a windstorm sweeping across the ocean, further fueling widespread participation.

8. What are the characteristics of individuals who did not participate in the pyramid schemes?

Individuals who did not participate in the pyramid schemes were primarily characterized by their financial education and awareness of Ponzi schemes. These individuals understood the risks and mechanics of such schemes and actively resisted the allure of quick returns. Additionally, some were partisans who fought against the idea of participating in these fraudulent schemes, although their efforts were largely unsuccessful. This situation is reminiscent of the famous story of the fox and the cat in Pinocchio, where rational warnings were ignored in favor of enticing, yet deceptive, promises. It's akin to the belief that planting a tree with gold coins would result in a tree that grows more gold, illustrating the widespread and unrealistic hope for quick wealth.

9. Which socioeconomic groups were most severely affected by the crisis?

Are they the same individuals that participated in the schemes, or are there differences?

The socioeconomic groups most severely affected by the crisis included individuals who sold their small inherited wealth, such as housing and cars, as well as those who invested their pensions and remittances from abroad. While all groups were impacted to some extent, these people were hit the hardest. They were often the same individuals who participated in the pyramid schemes, drawn by the promise of quick returns. The loss of their limited assets exacerbated their financial instability, making the crisis particularly devastating for them. This led to a massive exodus of Albanians desperately seeking to make money abroad to recover their losses.

10. For each of the individual- and community-level characteristics that you identified as making people susceptible to pyramid schemes, how do you think that factor has changed since the late 1990s?

Are Albanians still susceptible? What are the priority areas that should be concentrated on?

Since the late 1990s, Albania has seen improvements in financial literacy, economic stability, and regulatory frameworks, reducing susceptibility to pyramid schemes. However, vulnerabilities remain, especially among older generations and rural populations. Economic inequality, poverty, and reliance on informal networks still pose risks. Despite 30 years of economic growth and globalization, the mentality of quick money persists, leading to shadow banking and sporadic cases of unpaid debts, exacerbated by the 2008 financial crisis, COVID-19, and wars. Addressing these issues requires ongoing structural reforms, deepening and broadening financial markets, and promoting financial literacy and inclusion from a young age to old. The fight against informality, corruption, and fraud remains an ongoing challenge characterizing the post-communist regime economy.

11. Zooming out from Albania to the wider world, what do you believe makes people vulnerable to pyramid schemes in general, including MLM schemes?

People worldwide are vulnerable to pyramid and MLM schemes due to several factors. Financial illiteracy and economic hardship drive individuals to seek quick financial gains, while trust in social networks and psychological manipulation make these schemes appear credible. Regulatory gaps and cultural emphasis on entrepreneurship also contribute to their appeal. The promise of high returns with low effort and a lack of alternative opportunities further lure people into these fraudulent schemes. Pyramid schemes represent a money illusion phenomenon that persists as long as money exists. This is not a pessimistic view but an optimistic call for a revolution in financial education and money. Understanding these factors is crucial to developing effective strategies to educate and protect individuals globally.