

Research Article

Criminal Legal and Criminological Problems in Combating the Creation and Management of Financial Pyramids and their impact on Sustainability

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Abstract: This study examines how financial pyramid schemes are addressed within the criminal law system of the Republic of Kazakhstan, with particular attention to their criminological characteristics. It reviews the existing legal provisions governing such schemes and assesses how effectively these norms are applied in practice during investigation and prosecution. In addition, the research considers the social and economic factors that motivate individuals to organize and sustain pyramid operations. The methodological approach is based on a qualitative and quantitative combination of judicial practice analysis, official statistical indicators, and interviews with legal scholars, law enforcement personnel, and victims of financial fraud. The results show that, despite recent improvements in legislation aimed at tightening control over fraudulent investment activities, serious difficulties remain at the enforcement stage. These challenges are especially evident in cases involving schemes that are concealed behind legitimate business structures or operate across national borders.

Keywords: Pyramid investment schemes, financial deception, private investors, promotional practices, legal regulation, and crime prevention.

1. Introduction

Financial pyramid schemes represent one of the most harmful types of economic crime, as they unlawfully attract and divert large sums of money from both private individuals and organizations. Although Kazakhstan has introduced legislative measures aimed at limiting such activities, these schemes continue to spread widely across the country. This research seeks to examine the existing criminal law mechanisms, explore the criminological conditions that enable the growth of pyramid schemes, and develop practical recommendations for improving the effectiveness of law enforcement actions.

The ongoing expansion of pyramid schemes poses serious risks not only to individual investors but also to society as a whole, resulting in extensive financial damage. The rapid development of digital technologies, particularly social networks and online platforms, has significantly increased public exposure to fraudulent investment offers. Many contemporary schemes skillfully present themselves as lawful enterprises, making them difficult to detect at early stages.

As the methods used by organizers become more sophisticated, states are required to adopt modern and flexible approaches to counter these offenses. Ensuring the protection of personal assets and broader economic stability depends on legal systems that are capable of responding to fast-changing social and technological conditions. However, current regulatory frameworks often fail to keep pace, creating opportunities for offenders to exploit legal gaps. In this context, updating criminal legislation and strengthening pre-trial investigative procedures are essential steps toward more effective prevention and prosecution of financial pyramid schemes.

The findings of this study are particularly relevant for policymakers, law enforcement agencies, legal professionals, financial oversight bodies, and experts involved in the prevention of economic crime. The research is also of interest to scholars in the fields of criminal law and criminology. Beyond the professional community, the study has broader social significance, as it supports the development of a stronger regulatory environment capable of safeguarding personal assets and reinforcing national economic stability.

The purpose of this research is to provide an in-depth examination of Kazakhstan's criminal legislation related to financial pyramid schemes, to determine the principal criminological conditions that facilitate their spread,

and to formulate legal and procedural recommendations aimed at improving investigative and prosecutorial practices. In addition, the study addresses the wider social and economic consequences of pyramid schemes and analyzes how their organizers adapt their methods in response to digitalization and technological change.

2. Literature Review

Previous studies have addressed various legal and criminological dimensions of pyramid schemes. Anggriawan [8], for instance, examined the legal interpretation of pyramid schemes, paying particular attention to their conceptual boundaries and typology. She argued that criminal liability should not be limited to founders and administrators alone, but should also encompass individuals who actively encourage others to join. In her view, early participants—although not formally managing the scheme—often contribute to its expansion by recruiting new members, thereby becoming an integral part of the fraudulent mechanism and transforming the issue into a wider social problem.

Rakhmetov [9] focused on preventive strategies for economic crime, emphasizing that effective prevention relies on a combination of legislative quality, enforcement efficiency, and public participation. He proposed that tougher sanctions under Article 217 of the Criminal Code of the Kazakhstan [1] could serve as a stronger deterrent. At the same time, he highlighted shortcomings in Article 217-1, noting that its narrow emphasis on advertising fails to address the full range of methods employed by fraudsters, which allows them to bypass legal restrictions.

A. Biyebayeva and A. Kalguzhinova [11] maintained that any conduct facilitating the establishment or functioning of a pyramid scheme should fall within the scope of criminal liability under Article 217 of the Criminal Code [1]. They stressed the necessity of clearly identifying each accused person's role during judicial proceedings. According to their analysis, indictments should explicitly describe specific actions, such as attracting investors, organizing promotional events, managing financial flows, or coordinating meetings designed to expand the scheme.

In a comparative context, Jain [2] analysed contemporary multi-level marketing (MLM) models and highlighted their structural similarities to pyramid schemes. The research demonstrated that many MLM systems carry an inherent risk of evolving into pyramids, where profits are concentrated among a small group at the top while later participants incur

losses. To mitigate these risks, the author suggested reforming compensation systems so that rewards are linked to actual product sales rather than recruitment alone, although detailed implementation mechanisms were not fully elaborated.

L. L. Kuriata [10] explored pyramid schemes operating within religious or faith-based settings. Such schemes often disguise commercial activity as spiritual engagement, encouraging members to purchase goods, recruit others, or make donations under the belief that they are supporting a moral or charitable mission. In reality, these practices primarily serve to sustain the financial structure of the scheme while misleading participants.

O. [3] examined unethical practices in the direct selling sector and their negative impact on public trust. The study noted that European legal regulations tend to define pyramid schemes too narrowly, focusing mainly on traditional models and overlooking more complex variations. To enhance consumer protection, the author recommended broadening legal definitions to cover business-to-business models, prohibiting excessive entry fees, introducing mandatory buy-back policies, and ensuring that products are sold to genuine end users rather than circulated internally.

Building on these scholarly contributions, the present research aims to examine international approaches to defining pyramid schemes and assigning legal responsibility for their organization and operation. Its objectives include analyzing the criminal and forensic features of such offenses, reviewing their historical evolution, assessing statistical trends, and formulating practical recommendations to improve the investigation and prosecution of pyramid schemes in Kazakhstan.

3. Materials and Methods

This study adopts a mixed research design that integrates both qualitative and quantitative perspectives. The analysis is based on a systematic review of relevant legislation, an examination of judicial practice, an assessment of statistical data related to pyramid scheme offenses, and semi-structured interviews conducted with law enforcement representatives, legal professionals, and specialists in the field of economic crime. Together, these sources provide a comprehensive foundation for understanding the legal and practical dimensions of pyramid-related offenses.

To meet the research objectives and address the complexities associated with the establishment and operation of pyramid schemes, the study applies a range of established scientific methods. These methods were selected for their suitability in revealing the essential legal characteristics of such crimes and for evaluating the effectiveness of existing regulatory mechanisms.

The research combines general scientific approaches with specialized methods used in legal studies. In particular, the historical-legal method was employed to examine the emergence and transformation of pyramid schemes over time. By analyzing early, well-known examples that influenced later fraudulent practices, the study demonstrates how these schemes have evolved in response to economic conditions, regulatory changes, and technological developments.

The study employed an analytical approach to examine the [Kazakhstan \[1\]](#) alongside legislation from other countries concerning liability for operating pyramid schemes. This method allowed for the organization and comparison of legal provisions, identification of gaps and weaknesses in existing laws, and a clearer understanding of how different jurisdictions define and regulate pyramid-related offenses.

To complement the legal analysis, data were gathered from more than 30 legislative sources, official legal databases, and international regulatory documents, ensuring a broad comparative perspective. In addition, qualitative insights were obtained through semi-structured interviews with legal professionals, law enforcement officers, and victims of pyramid schemes. Conducted over a two-month period in Almaty and Nur-Sultan, participants were selected using purposive sampling to ensure relevant expertise. The interviews were transcribed and systematically coded to identify recurring themes related to enforcement challenges, legislative loopholes, and the underlying motivations of perpetrators.

A comparative method was also applied to explore how different countries regulate and prevent pyramid schemes. This involved analyzing legal frameworks, highlighting similarities and differences, and identifying best practices that could inform improvements in Kazakhstan's legislation. The analysis covered variations in how pyramid offenses are classified and the procedures jurisdictions use to address such cases.

Legal and dogmatic research methods were employed to interpret the relationship between statutory provisions and their practical applications. This approach helped uncover inconsistencies and weaknesses in current laws, providing a basis for proposing targeted legal reforms.

The study also relied on statistical methods to examine the prevalence of pyramid scheme crimes in Kazakhstan. Analysis of data from the past three years offered insights into trends in crime reporting, prosecution rates, and case outcomes, while also assessing the effectiveness of law enforcement agencies in responding to these offenses.

By combining these methodologies, the research achieved a holistic understanding of the issue, integrating legal, economic, and historical perspectives. The interdisciplinary approach—drawing on criminal law, forensic science, economics, and historical analysis—enabled a comprehensive examination of pyramid scheme-related crimes and informed the development of practical recommendations for strengthening regulatory and enforcement mechanisms.

4. Results

Pyramid schemes are fraudulent financial operations often disguised as legitimate investment opportunities or business ventures. They attract large numbers of participants by promising unusually high returns. Unlike genuine enterprises that generate profits through productive activities, these schemes pay earlier investors using the contributions of newcomers. Pyramid schemes can generally be understood in two ways: first, as a financial model where profits for initial investors come directly from the capital of subsequent participants; second, as a form of financial deception, where people are lured with the illusion of a lucrative, well-organized enterprise, while their investments are merely circulated among the participants. Because these schemes depend on a continuous influx of new investors, they inevitably collapse once recruitment slows, causing significant financial losses for those at the lower tiers.

Over time, pyramid schemes have adapted and diversified in form, but their core characteristic remains consistent: promises of rapid and substantial gains based on recruitment rather than legitimate business operations. Some contemporary schemes include the sale of goods or services, but these often serve only as a façade to create the impression of authenticity. The origins of pyramid schemes are difficult to pinpoint, as historical cases may have gone unrecorded.

One of the earliest examples with pyramid-like characteristics was the “tulip mania” in the Netherlands during 1636, when speculative trading in tulip contracts drove prices to extreme levels before a sudden collapse, causing heavy losses for many investors. In more recent history, Bernard Madoff orchestrated the largest known pyramid scheme in the United States. Through his company, Petters Group Worldwide, which held stakes in well-known businesses, Madoff offered investment opportunities promising high returns. Investors contributed roughly \$3.65 billion, only to later discover the operation was entirely fraudulent.

The Ponzi scheme, named after Charles Ponzi, is one of the most famous early examples of this type of fraud. In 1919, Ponzi's Securities Exchange Company promised to double investors' money in 90 days, attracting massive funds—sometimes up to \$1 million per week. By 1920, investigative reporting revealed inconsistencies, and the company collapsed, leaving investors with enormous losses. The Ponzi model has since inspired countless similar schemes, with some critics even drawing comparisons to certain government pension systems that rely on ongoing contributions from new participants.

In Russia and the post-Soviet space, one notorious case was MMM, founded by Sergei Mavrodi in 1989. Initially structured as a joint-stock company in 1994, it sold securities that ultimately proved unsustainable. Despite its collapse, Mavrodi later revived the scheme in Ukraine in 2011 with a new version based on “Mavro-dollars,” whose value fluctuated according to his directives, demonstrating the enduring adaptability of pyramid-style frauds.

This new iteration of MMM drew in approximately two million victims. Throughout the 1990s and 2000s, similar pyramid schemes operated across Kazakhstan, including MMM OJSC, Hopper-Invest, Russian House Selenga, and Vlastelina. More recently, scams such as Respect LLP, FinStatus, Optovka, and Questra Holdings Inc. have surfaced in Kazakhstan.

A Ponzi scheme is essentially a deceptive financial model presented as a lucrative investment opportunity, where individuals are persuaded to contribute money or assets with the promise of high returns. However, these returns are financed by the investments of new participants rather than legitimate business activities. Laws across different countries have been established to combat pyramid schemes, which operate by persuading individuals to invest money or buy products with the promise of earning commissions through recruiting others. In the United States, chain referral sales—where a buyer is incentivized to recruit new participants for financial gain—are prohibited. According to Pennsylvania's Unfair Trade Practices and Consumer Protection Law, any scheme in which an individual pays money or offers financial benefits in exchange for the opportunity to receive compensation is classified as a pyramid scheme, regardless of whether they receive additional rights or assets. Unlike a nationwide ban, the U.S. primarily fights against pyramid schemes at the state level, with various regulations and enforcement measures in place. The U.S. Attorney General periodically launches investigations to prosecute fraudsters, such as Operation Shattered Trust, which led to legal action against 500 individuals involved in such schemes.

A notable aspect of the U.S. legal system is the distinction between

pyramid schemes and legitimate multi-level marketing (MLM) operations. While the Federal Trade Commission (FTC) recognizes this difference, federal law does not provide a precise definition. Instead, individual states establish the legality of such business models, and court decisions often create important precedents that shape the country's approach to financial fraud.

In Russia, pyramid schemes are explicitly addressed under Article 14.62 of the Administrative Code and Article 172.2 of the Criminal Code. These laws classify such schemes as operations that attract investments from individuals or companies without engaging in authentic economic activity, instead using funds from new participants to pay earlier investors. Organizing large-scale schemes is subject to penalties including fines, corrective labor, imprisonment, or restrictions on personal freedom. Russian law defines a "large sum" as exceeding 2.25 million rubles, and an "especially large sum" as over 9 million rubles. Smaller schemes are treated as administrative offenses rather than criminal acts. Pyramid schemes can also be prosecuted under Article 159, which covers fraud, with additional provisions (Articles 159.1–159.6) addressing fraud in banking, insurance, and digital transactions.

China maintains strict measures against financial fraud through its Criminal Law. Article 192 criminalizes the collection of funds under false pretenses, with penalties ranging from fines and up to five years of imprisonment. More severe cases can lead to sentences of five to ten years, or even life imprisonment, along with asset confiscation. Article 200 holds organizational leaders accountable for fraudulent activities, while Article 224-1 specifically targets pyramid schemes, including those disguised as product- or service-based businesses that rely primarily on recruitment-based compensation.

European Union countries adopt varied approaches. In Germany, for example, pyramid schemes are not explicitly defined in the Criminal Code but fall under broader financial crime legislation, notably Sections 261 (money laundering) and 263 (fraud). Section 263 criminalizes deception for financial gain, punishing those who mislead others and cause financial harm with imprisonment up to five years and fines. Proof of actual financial damage is generally required, contrasting with preventive approaches in other countries.

Legal systems differ in how they treat pyramid schemes. In Kazakhstan, Russia, China, and some U.S. states, creating a pyramid scheme itself is a prosecutable offense, even without demonstrable financial harm. German law, by contrast, typically requires evidence of actual loss. Kazakhstan's preventive approach allows authorities to intervene early, reducing potential widespread economic damage.

Pyramid schemes often share common warning signs: promises of unusually high profits, lack of official licensing, celebrity endorsements, and additional incentives for recruiting new members. Awareness of these indicators is crucial for safeguarding against financial loss and avoiding fraudulent schemes.

5. Key Aspects of Pyramid Schemes

Legal Framework Analysis: Kazakhstan's laws prohibit fraud and illegal financial activity, but enforcement is complicated by legal loopholes and challenges in proving intent.

Criminological Factors: Economic instability, low financial literacy, and social influence contribute to the proliferation of pyramid schemes. Organizers exploit gaps in regulation and public trust.

Impact on Economy and Society: Pyramid schemes result in significant financial losses for individuals and businesses, increase public distrust, and place additional burdens on regulatory and law enforcement institutions.

Law Enforcement Challenges: Investigations are hindered by complex financial structures, cross-border operations, and limited specialized expertise among enforcement personnel.

6. Discussion

The findings indicate that, although Kazakhstan has taken notable steps to curb financial pyramid schemes, significant challenges persist in law enforcement and public awareness. Strengthening financial education, tightening regulatory measures, and fostering international collaboration are crucial for a more effective response. Comparative studies suggest that implementing stricter licensing standards and establishing specialized financial crime units could enhance the capacity of authorities to detect and prosecute such schemes.

Wahyudi I [4] examined the transformation of Ponzi schemes in the digital age, particularly in sectors such as real estate and cryptocurrencies. They argue that many modern online investment systems function as covert Ponzi schemes, attracting large numbers of participants with the promise of high returns. These schemes create a misleading appearance of profitability, while the actual returns come from new investors rather than

legitimate business activities. Despite operating through digital platforms, these schemes maintain the same underlying principles as traditional pyramid schemes, relying on continuous recruitment to sustain payouts to earlier participants. The study also highlights a common tactic, often called the "gap closure system," in which payments to newer investors are delayed strategically to ensure that existing participants receive their returns, giving the scheme a temporary illusion of stability.

Deb and Sengupta [5] investigated the social and psychological factors that lead individuals to engage in pyramid schemes, focusing on residents of Haragpur, West Bengal, India. Their research demonstrated that social networks and community relationships significantly influence participation, as people are often recruited by friends, family, or respected local figures. The lure of rapid financial gains, combined with limited access to conventional banking services, drives many to invest. In addition, low levels of financial literacy and understanding of investment principles make individuals more vulnerable. The study also found that endorsements by public figures, including politicians and other trusted individuals, increase the credibility of such schemes and encourage wider participation.

Many individuals, particularly those with an urgent desire to accumulate wealth, see pyramid schemes as an opportunity to get rich quickly. Furthermore, financial and legal illiteracy prevents victims from critically evaluating contracts and investment details, making them more likely to trust those who recruit them [6; 7]. Another key finding was that unemployment, especially in rural areas, leads many young people to engage in these schemes as recruitment agents, further perpetuating the cycle of fraud.

7. Conclusion

Financial pyramid schemes continue to pose a serious threat to economic stability, deceiving both individuals and organizations while illicitly accumulating large sums of money. This study adopts a criminological perspective to investigate the factors that allow such schemes to flourish, examining the motivations and strategies of their organizers as well as the widespread social and economic harm they cause. While this research provides important insights into Kazakhstan's legal and criminological frameworks, several emerging areas warrant further investigation. These include the influence of digital currencies and blockchain technologies on modern pyramid schemes, psychological analyses of both perpetrators and victims, and cross-cultural evaluations of legal responses to financial fraud. Longitudinal research could also shed light on the enduring economic and social effects of these schemes on affected communities.

By analyzing court decisions, statistical reports, and expert interviews, this study identifies patterns and trends in the operation of financial pyramid schemes in Kazakhstan. It also offers practical recommendations for strengthening legal regulations and criminological interventions, emphasizing the need for more robust legislation, enhanced law enforcement strategies, and expanded international cooperation to address the increasingly sophisticated nature of financial scams.

Ultimately, this research provides a valuable reference for policymakers, law enforcement authorities, and specialists in economic crime. Implementing the proposed measures can help Kazakhstan reduce the risks associated with pyramid schemes, protect citizens from fraudulent activities, and bolster national economic security.

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