

Weak economy a breeding ground for get-rich-quick schemes

The current economic conditions are a perfect breeding ground for an increase in get-rich-quick Ponzi and pyramid schemes, warns Mthunzi Mbali, vice-chairman of the Direct Selling Association of South Africa (DSA).



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In his budget adjustment speech, Minister of Finance Tito Mboweni announced that the economy could contract by as much as 7.2%. Owing to the weak economy, exacerbated by the Covid-19 lockdown, many South African companies have announced job cuts on a mass scale.

Mbali says the DSA was established to set standards that member companies are expected to observe and adhere to as a way to guarantee a level of professionalism and ethical standards the public can trust.

DSA member companies' operations cover nearly the entire cross-section of the economy and as such, some of them also fall under various regulatory regimes. Mbali says it was important to establish a self-regulatory mechanism that will be able to assure industry participants and consumers the highest standards of ethical conduct.

Holding companies accountable

The self-regulatory mechanism helps the public to distinguish genuine direct sellers from those that simply wish to leverage the direct selling business model for nefarious purposes.

"We have drafted a code of ethics that all member companies registered with the DSA are required to observe at all times," reveals Mbali.

"We believe very strongly in self-regulation to the extent that DSA South Africa has been instrumental in establishing self-regulation mechanisms in other jurisdictions on the African continent. As the DSA, we can hold member companies accountable for their behaviour towards the public as this reflects on the reputation of the industry as a whole."



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He says it is important for the DSA to be stringent in holding member companies accountable because the direct selling business model is vulnerable to "copy-cats" that lack integrity.

"These copy-cats are accountable to no one as witnessed in the recent past with the mushrooming of Ponzi schemes masquerading as direct selling business operations," he adds.

Conducting due diligence

While the self-regulator is unable to censure businesses that are not members of the DSA, Mbali encourages the public to conduct basic due diligence to establish the legitimacy of any business venture they wish to participate in.

"Membership to an industry self-regulatory body such as the DSA is one place to start in vetting the veracity of a business that claims to be a legitimate direct selling operation," says Mbali.

All DSA member companies are listed [on the organisation's website](#). The association urges the public to continue to make use of information that the organisation makes publicly available about its members.

The DSA can vouch for its member companies as legitimate and above board.

"We are seeing an increase in traffic to our digital platforms including our social media pages where the public is beginning to engage with us more regularly to test the reliability of claims by several operations in our space coming to the market," says Mbali.

"As we have mentioned before, the acid test on whether a business is legitimate and sustainable should include membership to an industry self-regulatory body, availability of a physical structure that the public can inspect, existence of a product or service exchanging hands and the promise of unrealistic returns in a very short space of time from modest investment is a definite red flag.

"If it is too good to be true, then you definitely need to investigate further because it probably isn't true," concludes Mbali.