



# DIFFERENTIATING BLOCKCHAIN, AND CRYPTOCURRENCIES FROM PONZI SCHEMES LIKE ONECOIN

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## What is a Cryptocurrency

A cryptocurrency is a digital asset designed to work as a medium of exchange. It uses cryptography for security, a feature which makes cryptocurrencies and crypto assets secure and very difficult to counterfeit.

Many cryptocurrencies are decentralized systems based on **blockchain technology**, a distributed ledger technology (DLT) enforced by a distributed network of computers. A defining feature of a cryptocurrency, and arguably its biggest attraction, is its organic nature; it is not issued by any central authority, rendering it theoretically immune to government interference or manipulation. This is where the misconceptions and confusions concerning cryptocurrencies stem from.

The first blockchain-based cryptocurrency was **Bitcoin**, which still remains the most popular and most valuable. Today, there are thousands of alternate cryptocurrencies with various functions or specifications. Some of these are clones of Bitcoin while others are new cryptocurrencies that split off from existing ones.

## What is Blockchain

At its most basic level, a blockchain is literally just a chain of blocks, where in this context, the words “block” and “chain” refer to digital information (the “block”) stored in a public database (the “chain”). The digital information is recorded in a database and is distributed over a vast network of computers.

Blockchain is one of the key technologies of the Fourth Industrial Revolution, which along with others like Artificial Intelligence, Drones and Robotics, are today fusing the lines between technology and humanity.

Because blockchain enables for digital information to be securely stored and transferred directly from one party to another, valuable digital information also known as digital assets can be exchanged electronically, and one of these digital assets are cryptocurrencies. Therefore, the relationship between blockchain and cryptocurrencies is that cryptocurrencies are one of the applications of blockchain technology.

Aside from cryptocurrencies, the applications of blockchain technology are vast, and are being tested in various fields which are hinged on the storage or exchange of valuable information or trust. This includes the legal field, the logistics industry, identity services, payment systems, cybersecurity and many others.

## What is a Ponzi Scheme?

A Ponzi scheme is a fraudulent investing scam promising high rates of return with little risk to investors. The Ponzi scheme generates returns for older investors by acquiring new investors. This is similar to a pyramid scheme in that both are based on using new investors' funds to pay the earlier backers. In both ponzi and pyramid schemes, eventually there isn't enough money to go around, and the schemes collapse.

Companies that engage in a Ponzi scheme use various gimmicks and focus their energies on attracting new clients to make investments. This new income is used to pay original investors, disguised as a profit from a legitimate transaction. Ponzi schemes rely on a constant flow of new investments to continue to provide returns to older investors, and when this flow of new investment runs out, the scheme falls apart.

## What is OneCoin?

OneCoin is a ponzi scheme that is promoted by offshore companies OneCoin Ltd (Dubai) and OneLife Network Ltd (Belize), both founded by Dr. Ruja Ignatova, who went missing in 2017. After her disappearance, the OneCoin leadership was taken over by her brother Konstantin Ignatov, who was in March 2019 arrested in Los Angeles for charges of money laundering.

Although OneCoin defines itself as a cryptocurrency that provides borderless, accessible and affordable financial services, it is actually a ponzi scheme. This is due to its organizational structure and to the fact that many of the people central to OneCoin have previously been involved in other similar Ponzi schemes. This has been flagged by various nations and their respective authorities including the Belgian Financial Services and Markets Authority, UK's Financial Conduct Authority, Nigeria, India, Bulgaria, Italy, Germany and Samoa among others.

### Explaining some of the differences between OneCoin and other cryptocurrencies

1. OneCoin says its main business is selling educational material for trading. Members buy their educational packages from 100 Euros to 118,000 Euros, containing "tokens" to "mine" OneCoins.  
**Concern:** Mining in blockchain networks is the process of verifying transactions. We are concerned about proposals that promises mining capacity as this is also unverifiable.

2. OneCoin is said to be mined by servers at **2 sites** in Bulgaria and one site in Hong Kong. Each level (except six and seven), gives new educational material, which is plagiarized from several sources. **Concern:** The OneCoin network claims to have two mining sites, mining is an open operation and in a public blockchain anyone can participate in mining, which is a core benefit of blockchain solutions. Our concern is that OneCoin is the only one in control of the mining and as such can manipulate the entire network. Other cryptocurrencies or blockchain networks avail their mining resources freely for inspection by anyone enforcing blockchain's inherent transparency.
3. The company and its recruiters claim that OneCoin does not sell cryptocurrency but only educational material. However, in a typical OneCoin recruiting meeting most of the time recruiters talk about investing in cryptocurrency and the educational material is barely even mentioned.
4. Currently there is no way to exchange OneCoin to any other currency. Previous to January 2017 the only way to exchange OneCoin to any other currency was OneCoin Exchange, xcoinx, an internal market place for members who had invested more than just a starter package. This service was shut down without warning in January 2017. While it was functioning, OneCoin could only be exchanged for euros, which were placed in a virtual wallet from which they could be requested for wire transfer. The market place had daily selling limits based on which packages the seller had invested in, which greatly limited the amount of OneCoin which could be exchanged. **Concern:** Although they claim to run a mining operation and an exchange, it is only their exchange that accepts OneCoin. This is a **huge red flag**, as opposed to other mainstream cryptocurrencies which can be freely and openly exchanged on multiple exchanges including some banks.

## Our Verdict

OneCoin does not operate as a typical cryptocurrency and the opacity of its operations have raised serious skepticism from both the Blockchain and Cryptocurrency industries. Given the history of the founders and the mode of operation, OneCoin is simply a scam using the cryptocurrency and blockchain phraseology to execute their scheme. As defined above you can tell a ponzi scheme from the way it operates, irrespective of whether it uses shillings, dollars, euros or cryptocurrency, as it is medium of value transfer.

Blockchain and its applications such as cryptocurrency is a Fourth Industrial Revolution technology that is sweeping the world changing how we do business and interact with systems. Its important to understand these technologies for what they can do for emerging economies like Uganda. Bundling up ponzi schemes with the cryptocurrencies is akin to saying that we should ban cash because its being used for crime. Sure it has its challenges as does any new technology however the benefits far outweigh its teething problems.

The Blockchain Association of Uganda hereby warns the public to refrain from dealing with OneCoin, because it is a ponzi scheme, that is knowingly cheating society, and this is criminal. We do not recognize Onecoin as a blockchain or a cryptocurrency business, but as a scam.