

RUSSIA



ONLINE APPEAL: The MMM website, showing Sergei Mavrodi in his younger days, offers the prospect of big returns to new members.

REUTERS /SERGEI KARPUKHIN

After failures of earlier get-rich-quick schemes, Sergei Mavrodi is back with another. How does he get away with it?

# Grandmaster of Russia's pyramid cult

BY JASON BUSH

MOSCOW, SEPTEMBER 17, 2012

**T**he pitch from the pyramid scheme sweeping Russia has undeniable appeal: make money and make the world a better place, it says. Like thousands of others, Roman Vorobyev believed the scheme would deliver big returns for him and cascading wealth for others.

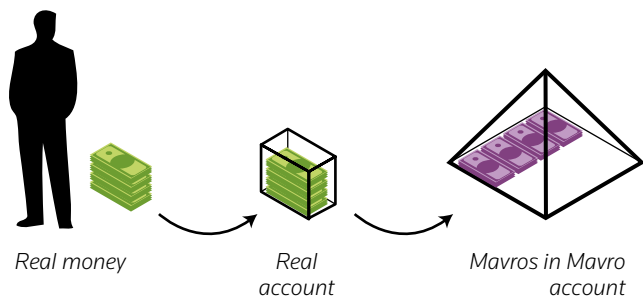
So in April Vorobyev ploughed 400,000 roubles (\$12,500) of savings into a self-styled 'mutual aid fund', known as MMM-2011, promoted by Sergei Mavrodi, a guru-like financier, former lawmaker and convicted fraudster.

"I definitely believed that everything was possible," said Vorobyev, a newspaper designer in Irkutsk who invested in the fund despite a remarkable disclosure by Mavrodi - that it was indeed a pyramid scheme.

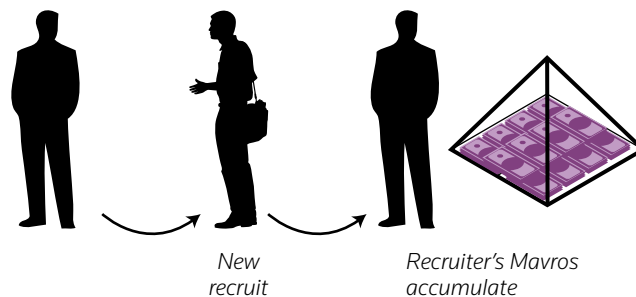
## How one MMM pyramid worked

Sergei Mavrodi's get-rich-quick plans are more sophisticated than simple pyramids and have subtle changes in each new incarnation. But in broad terms, MMM-2011 worked like this:

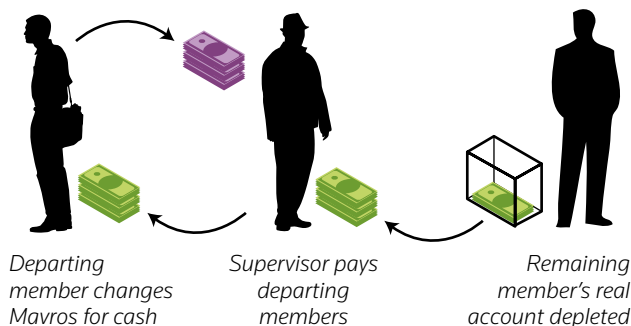
- 1 New member joins** and is required to set up and fund an online bank account for MMM-2011 operations. In return, member is allocated virtual money, called Mavros, in the MMM-2011 system.



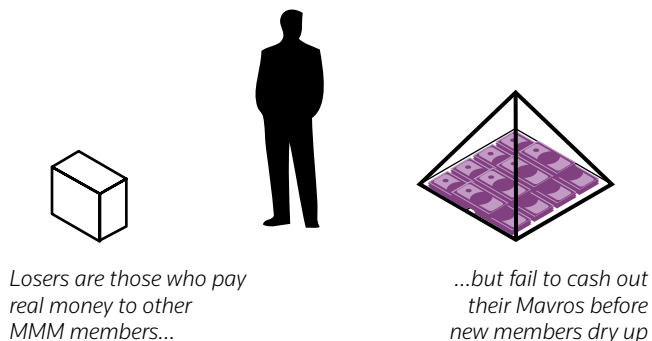
- 2 Gains accumulate in Mavros.** Monthly gains can be 20% or more, with bonuses for recruiting other members or becoming a group leader



- 3 When a member cashes out,** the Mavros are converted into real money; that money is taken from other members' real accounts by a supervisor. Any member who refuses to make such payments is ejected from the scheme.



- 4 Real gains and payouts can be made** - but only so long as new members keep joining and are willing to make real payments into the scheme



"If we all help each other, more and more people will come and there will be an endless inflow of money," he said.

It hasn't worked out that way. Since parting with his cash, Vorobyev, 45, has failed to reap the double-digit monthly returns that were advertised, and he's lost hope of ever seeing his money again. MMM-2011 has closed and is belatedly being investigated by the police, who say the scheme had no chance of delivering the gains it promised.

In other countries, Mavrodi might become a pariah and such scams would be banned. Not in Russia. Before MMM-2011, Mavrodi was famous as the mastermind of an even bigger Ponzi scheme in the 1990s. And in the past few months he has launched yet another one, MMM-2012, that is luring hordes of investors by touting the prospect of returns ranging from 30 percent to 75 percent a month.

Mavrodi dismisses allegations of any

deception or illegality. "People voluntarily enter the system," said the reclusive financier in a video he recorded in response to Reuters' questions. "They are warned of the risks. They are conscious of everything. How can there be fraud here?"

The MMM website proclaims: "This is, in essence, the most sincere and kind system in this thoroughly dishonest, hypocritical and vicious world."

The Mavrodi phenomenon raises ques-



CONVERT: Andrei Emilianov, an MMM enthusiast, poses in his car with promotional material he distributes around Moscow. **REUTERS/MAXIM SHEMETOV**

tions about the state of financial regulation in Russia – suggesting elements of the “Wild East” still thrive under President Vladimir Putin. Putin’s authoritarian rule stands in sharp contrast to the anarchic 1990s, a period of social breakdown, hyperinflation and chaos. Yet the current appeal of pyramid schemes hints at the continuing legal uncertainties in today’s Russia.

Pyramids, which rely on new depositors to pay returns to existing ones, are doomed by the laws of arithmetic to collapse in the end. In countries such as Britain and the United States they are seen as fraudulent and perpetrators are prosecuted.

Yet in Russia and other former Soviet countries, they operate largely unhindered – there are no laws specifically banning pyramid schemes, though other laws have sometimes been used to stop them. One of the problems, say victims, is the attitude of the authorities, who often seem reluctant to close the schemes. As recently as March

“There’s no firm hierarchy. I give advice to the participants and they follow it. In MMM everything is voluntary.”

**Sergei Mavrodi**

founder of the MMM schemes

police said they had no reason to investigate MMM-2011, which boasted that it had had more than 35 million participants, in Russia and beyond, with an average deposit of \$1,000.

Mavrodi has dropped from public view since the end of MMM-2011 but remains popular, cultivating an image as an anti-establishment visionary. He issues periodic videos via his website to promote pyramid schemes as the path to a post-capitalist future. They appear alongside his poetry and philosophical writings.

“Do you want some greedy banker to buy a third ... or whatever it is ... limousine?

Put your money in MMM and you will help a pensioner, an invalid, a poor person. Those who really need your help!” Mavrodi’s website says.

He also appeals to people disoriented by the financial crisis. He told Reuters: “The modern world, the modern financial system, is deeply unjust. The idea that it’s better to work, and work more – that isn’t true. It’s a fairy tale that is drummed into us from childhood.”

“I am not interested in money,” he said. “My goal is simply to help people – there are no other goals.”

### “EVIL GENIUS”

Given Mavrodi’s history with pyramid schemes, his resurrection is remarkable. A graduate of the Soviet Union’s elite physics institute, he created his first pyramid in the 1990s. Amid Russia’s turbulent transition to capitalism, MMM advertised widely on TV, offering a seemingly effortless path to riches.

Several million people, driven by naivety and euphoria, rushed to be part of the bonanza – only to lose their savings when the edifice came crashing down in 1994. Estimates of the losses range from \$110 million, the sum later cited in court by prosecutors, to many billions according to a group representing aggrieved investors.

Despite the collapse, so many people still regarded Mavrodi as their champion that months later he managed to get himself elected to parliament. After a protracted legal battle he was finally convicted of fraud in 2007 and sentenced to jail.

Released almost immediately because he had spent four years in detention awaiting and during trial, he resumed his old ways. Even those who oppose him are in awe of his persuasive powers.

“In my view he is definitely a genius,” said Vyacheslav Sklyankin, the founder of an anti-MMM campaign group on Vkontakte, Russia’s equivalent of Facebook. “As it’s now fashionable to say, he is an evil genius.”

These days Mavrodi uses the Internet

to reach potential investors. While the first MMM operated through a network of retail branches, his new schemes lack visible corporate structure, formal management, or legal identity – a deliberate move, Mavrodi told Reuters, to complicate attempts by the Russian authorities to stop him.

“There’s no firm hierarchy. I give advice to the participants and they follow it. That’s how it’s organised. Formally there is no relationship, no boss and no workers. In MMM everything is voluntary,” Mavrodi said.

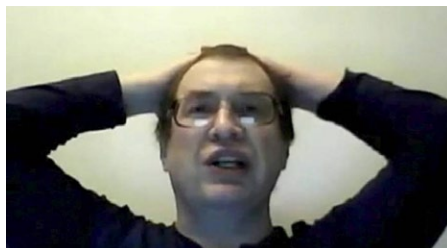
In the latest schemes, MMM does not collect all the money in one pot. Instead, deposits and payouts are made mostly between individual members’ own bank accounts. Senior figures also extract fees for administrative purposes.

The schemes are promoted through dozens of websites and thousands of videos posted by apparently satisfied MMM depositors on YouTube. MMM’s reward structure encourages recruits to spread the word. Bonuses, calculated as a share of new recruits’ deposits, are paid to those who attract new members – 20 percent for the first recruit and 10 percent for each subsequent one.

The system creates a hierarchy based on multiples of ten. Thus desyatniki (“tenners” – those in charge of ten investors) are supervised by stoniki (“hundreders”) who are in turn supervised by tisyachniki (“thousanders”) – right up to millionniki.

“The growth (in members) is simply huge: from a simple worker, and the unemployed, to businessmen with real money,” said Andrei Emilianov, a former construction specialist from Moscow, who says he quit his job at a prestigious German company late last year to promote MMM full-time. He has risen to the rank of stotisyachnik (hundred-thousander).

Emilianov, 30, said that when he first heard about the scheme, he was sceptical, but was gradually won over after seeing his investments deliver double-digit monthly returns. So far he has ploughed some 900,000



See video (in Russian) of Sergei Mavrodi on:  
<http://link.reuters.com/myt62t>

roubles (\$27,900) into MMM-2011 and MMM-2012 and has already earned back several times that amount, he said.

The enthusiasm of converts such as Emilianov doesn’t seem dulled by the fact that Mavrodi openly presents his schemes as pyramids.

“It’s written on the site that it’s a financial pyramid. There are no promises and no obligations. If you don’t want to participate you don’t have to,” Emilianov said.

Mavrodi says the disclaimers are prominent, though others might disagree.

“Everyone is paid everything,” says a slogan on Mavrodi’s website. “As long as the

pyramid still hasn’t encompassed the entire world, as long as you have at least one acquaintance or relative not participating in it – sleep easily,” the site says. “It means, (we) haven’t reached everyone.”

Despite the inherent risks, his website claims the high ground: “It’s not the System (MMM) that is amoral, but the world around it that is amoral! The System is the sole oasis. A small island. Of goodness and justice. The first green shoots. Of the new! Of the best! Of truth and light! Of freedom!”

### CULT-LIKE MAGNETISM

In some ways, Mavrodi’s notoriety has proved one of MMM’s greatest strengths.

“MMM is a brand that everyone knows. Everyone knows about Mavrodi,” said Anton Ryzhikov, a former MMM investor in Kharkov, Ukraine, who rose to be a ‘stonik’ (hundreder).

One explanation for his popularity lies in the conspiracy-minded attitude that many Russians and Ukrainians have towards the first MMM debacle in the 1990s.

“It wasn’t (Mavrodi) who stole the money. It was the police, the state, the tax



LUCKY ESCAPE: Anton Ryzhikov, from Kharkov, Ukraine, says he got out of MMM-2011 in time, but that others lost money. **REUTERS/DMITRY NEYMYROK**

authorities,” said Emilianov, the hundred-thousander, reflecting a common sentiment towards the authorities. “Definitely one respects this person. He says the right things and has shown what he is capable of.”

Former depositors say Mavrodi also exerts a kind of spiritual hold over his followers. “MMM is very similar to a cult. You have to clap and shout ‘hurray!’, ‘We Can Do Much.’ You can’t talk about other structures. You can only write good things on the internet,” said Vorobyev, the graphic designer.

And then, of course, there is the desire for a quick buck. “People brought money because the basic human characteristic is greed,” said Ryzhikov. “If you hold on for a bit longer you will earn a bit more. People simply couldn’t stop themselves.”

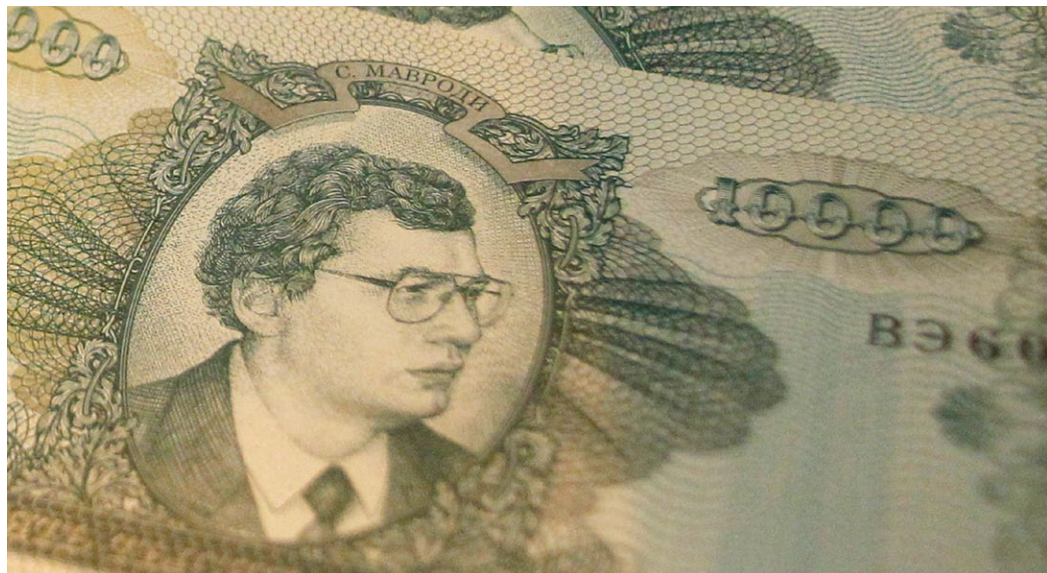
Ryzhikov, a 22-year-old technical draughtsman, said he borrowed money to invest in the scheme on the advice of a relative, because he needed cash when his employer temporarily slashed his pay during a downturn. He got out in time, but many other hard-up people in Kharkov took out loans to invest in MMM-2011 and lost money.

“I have several people who are paying their child benefits (welfare payments meant to support families) to the bank (to pay off their debts). It’s an unacceptable situation,” he said.

### TOO LITTLE, TOO LATE

Russian officials have banned MMM’s billboard advertisements and advised the public not to invest in its schemes. But critics argue the authorities have done too little, too late.

“It’s absolutely amazing what Mavrodi continues to do,” said Igor Kostikov, a former head of Russia’s stock market watchdog, who now heads Finpotrebsoyuz, which lobbies on behalf of financial consumers. He accuses Russia’s Federal Service for the Financial Markets (FSFM), the successor to the body he once headed,



FUNNY MONEY: In the 1990s ‘banknotes’ bearing a likeness of Sergei Mavrodi were produced for the first MMM scheme. The latest one uses a virtual currency called Mavros. **REUTERS/MAXIM SHEMETOV**

of failing to act, and says authorities could pursue Mavrodi under laws governing securities and banking.

“The position of the financial regulator is that it’s not their piece of bread. The question is: why do they exist?” he said. “The FSFM should be ringing all the bells and not sleeping by the fireplace.”

A spokeswoman for the FSFM said the service’s responsibilities don’t include regulating pyramids. She called Kostikov’s criticisms “amateurish.”

Andrei Kashevarov, deputy head of Russia’s Federal Anti-monopoly Service, which also regulates the advertising market, said there are loopholes that make it difficult to act more decisively against Mavrodi. For example, websites such as MMM’s are not categorised in Russian law as advertising, which is regulated, but as information, which is not. But he says, “the legislation is changing and will be made tougher.”

Shortly after MMM-2011 folded, Russia’s government instructed the finance ministry to draw up legal changes to com-

bat pyramid schemes. Alexei Savatyugin, deputy finance minister, has said organisers of such schemes should face up to ten years in jail and a fine of up to a million roubles.

For now, though, Mavrodi the pyramid grandmaster remains defiant.

“It’s impossible to ban it,” Mavrodi said. “It’s your money... You can burn it. You can throw it away. You can give it to someone else.

“I’m trying to change the world. The old world of course will try to resist.”

*Editing by Richard Woods, Simon Robinson and Sara Ledwith*

### FOR MORE INFORMATION

**Jason Bush, Senior Economics Correspondent**

jason.bush@thomsonreuters.com

**Richard Woods, Senior Editor, Enterprise and Investigation, EMEA**

richard.woods@thomsonreuters.com

**Michael Williams, Global Enterprise Editor**

michael.j.williams@thomsonreuters.com