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One Year Later, Mavrodi's MMM-2011 Is Nobody's Problem

By Rachel Nielsen

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A vertical banner in Moscow advertising MMM-2011 behind a bank billboard. The MMM-2011 ad reads, “Money lives here." **Vladimir Filonov**

It’s a financial pyramid. A swindle. We’ll track this company. We’ll protect citizens.

Those were the words of authorities one year ago as Sergei Mavrodi, the convicted criminal behind the MMM financial pyramid of the 1990s, founded an organization called MMM-2011.

Federal officials went on radio shows, gave news interviews and held a news conference to warn the public about MMM-2011. They said it should be closely inspected by regulators and followed by government agencies.

But 12 months later, in an interview with The Moscow Times, Mavrodi claimed that MMM-2011 has 15 million investors, described it as a structure in which earlier investors receive their profits from later investors — the exact definition of a Ponzi scheme — and said

authorities "won't succeed" in shutting him down.

Not only are Ponzi schemes and financial pyramids legal under Russian law, according to the federal financial ombudsman, but almost all of the authorities who threatened to track him a year ago haven't followed up. What's more, some of them now say Mavrodi's MMM-2011 "isn't our issue." The upshot is that Mavrodi, who served 4 1/2 years for criminal fraud after swindling millions of Russians just more than a decade ago, is openly running a Ponzi scheme on multiple web sites.

Investing in Mavros

Like the first MMM, Mavrodi's latest vehicle uses a creative investment system — this time, instead of receiving vouchers bearing Mavrodi's face, investors have their money converted to a "virtual currency" called "mavro" that is supposed to increase in value, Mavrodi explained in the interview.

This incarnation of MMM also promises outlandish returns. According to one MMM-2011 web site, mmm2011org.ru, the rates of return are 20 percent to 60 percent per month, while according to another MMM-2011 web site, www.mmm-2011.ru, they are 20 percent to 75 percent per month. The latter site estimates that a principal of 10,000 rubles ($320) will generate 210,000 rubles ($6,700) in three months.

Both web sites describe MMM-2011 as a financial pyramid and promote financial pyramids, also known as Ponzi schemes, as valid investment vehicles. In the section entitled FAQs, the sites tout MMM-2011's sustainability by saying Bernard Madoff's Ponzi scheme existed for about 50 years.

When a Moscow Times reporter read Mavrodi a description of a Ponzi scheme — an operation in which earlier investors receive money from the money of later investors — Mavrodi confirmed that is how MMM-2011 runs. "There is no promise of profits," he said.

Mavrodi said his web site features "a huge warning," but there actually is no warning about what happens when a Ponzi scheme ends: Later investors lose their investments on paper and their principal. Yet, one of the MMM-2011 web sites says on its home page, "MMM always pays."

That raises the question, what have authorities been doing over the past year?

Regional authorities have been aggressively pursuing MMM-2011. In Penza, for example, the local branch of the Federal Anti-Monopoly Service announced in late October that it had fined Mavrodi 500,000 rubles ($16,000) for fraudulent billboards in the city that promoted his "pyramid" operation and a Mavrodi web site. Over the past year, prosecutors in Volgograd have tried to obtain a court ruling forcing local Internet providers to block the site. Prosecutors in Rostov-on-Don succeeded in blocking access in July.

Yet the federal authorities who raised a hue and cry last year — MMM-2011 launched on Jan. 11, 2011 — have done little, and MMM-2011 continues to operate online and advertise on a national level.

'It Isn't Ours'

The deputy head of the Federal Anti-Monopoly Service, Andrei Kashevarov, told Kommersant in January 2011 that the 20 percent to 30 percent returns promised by MMM-2011 amounted to a swindle. Yet, in the course of nine business days and after multiple phone calls and e-mailed questions, the service couldn't arrange a telephone interview with Kashevarov for an update on what action the agency has taken over the past year.

Gennady Onishchenko, director of the Federal Consumer Protection Service, said in January 2011 that his agency would carefully follow the situation and "take quick action if necessary" against MMM-2011. But earlier this month, a spokeswoman at the service refused to consider a request for an interview with Onishchenko. "We don't handle this topic," she said. "It's a financial matter."

State Duma Deputy Tatyana Yakovleva told journalists a year ago that MMM-2011 was "a swindle" and that the government's "monitoring agencies should check into the legality of Mavrodi's activities as he is ramping up." Asked for comments last week, Yakovleva's office said the deputy wasn't available for an interview and e-mailed a statement that included last year's statement verbatim.

Also in January 2011, Andrei Pilipchuk, spokesman for the Interior Ministry's Economic Crimes Department, told Vesti-FM that "monitoring agencies should check into the financial pyramids that Mavrodi is setting up." In a later interview Jan. 16, Pilipchuk said, "The supervision of the operation isn't ours. It's under the Federal Service for Stock Markets." If Mavrodi breaks the law, he added, then his division will follow up.

Though the stock market regulator took part in Federal Anti-Monopoly Service research on MMM-2011 a year ago, its press office told The Moscow Times on Friday that "it isn't ours" because the operation isn't listed on a stock market, isn't licensed and isn't incorporated. Mavrodi himself said MMM-2011 isn't a company and doesn't have legal status.

Yet, there has been some action among prominent officials over the past year. Moscow City Duma chairman Vladimir Platonov said he wrote to the Prosecutor General's Office and the Moscow and Moscow region division of the Federal Security Service.

A Legal Operation?

Another exception is federal financial ombudsman and former State Duma Deputy Pavel Medvedev. In an interview this month, Medvedev said he had written to the Prosecutor General's Office, keeping a promise made in 2011.

But Medvedev also said Mavrodi isn't breaking any laws and isn't operating his financial scheme on a giant scale, only claiming to do so. "There are thousands" of investors in the scheme, he believes, but not millions. Otherwise, he said, he would be inundated with complaints.

For his part, Mavrodi said he hasn't received notifications or communications from the government other than the regional lawsuits, he said. Asked if he has any supporters in federal agencies or receives help for MMM-2011 from the federal government, he scoffed.

“Help from the government — it’s funny to even talk about that,” Mavrodi said.

Mavrodi, 56, said he isn’t making money from MMM-2011, but instead he is running the operation as a way “to help people.”

“I haven’t gotten a kopek,” Mavrodi said when asked about his profits from MMM-2011.

Even the programmers for his web site don’t receive their pay in rubles, but in mavro, he said.

That would be a far cry from the first MMM. In that Ponzi scheme, which operated in 1993-94, Mavrodi took money from an estimated 10 million to 15 million people. He said he himself doesn’t know how many people participated.

Toward the end of its operations in mid-1994, MMM was earning “about $50 million a day” from Moscow investors alone, Mavrodi said. He said in the interview that he didn’t spend any of the money collected and claimed that the law enforcement officers involved in arresting and prosecuting him took the money for their personal use.

Despite the sudden shutdown of MMM in August 1994, Mavrodi is confident about the legality of his current operation.

“The federal government could have closed this at the beginning stages. Now it’s too late,” he said.

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