



Report from PSA President Robert L. FitzPatrick

The Efforts of Sri Lanka to Combat MLM Pyramid Schemes

**Regional Seminar on Combating Pyramid Schemes
Sponsored by the Central Bank of Sri Lanka
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Colombo, Sri Lanka**

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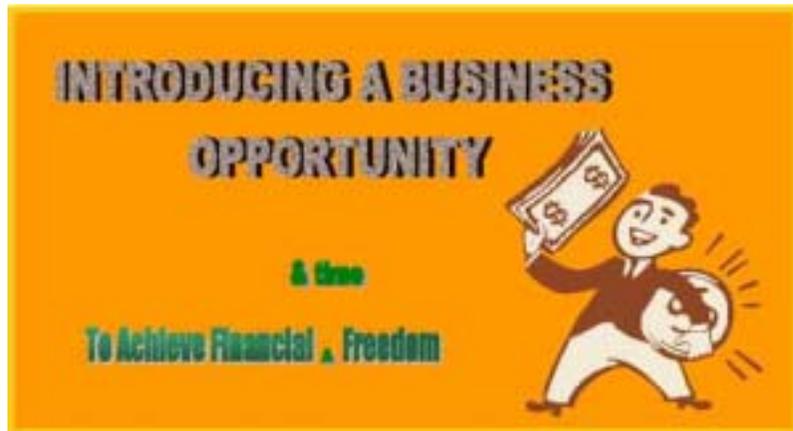
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A Small Nation Battles the MLM Industry

Sri Lanka, a small nation off the coast of India is struggling to combat currency losses and the financial harm suffered by thousands of its citizens from offshore multi-level marketing schemes. Approximately 20 million people live in Sri Lanka. Previously, the country had no laws against “endless chain” schemes and had no need for any.

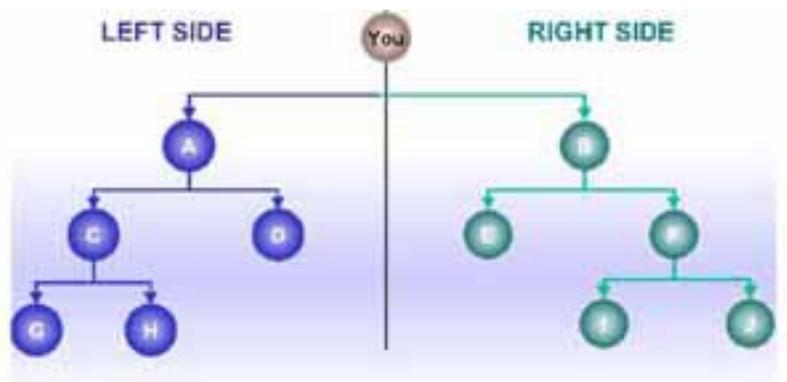
MLM Invasion

Over the last several years, multi-level marketing companies have begun soliciting investors in Sri Lanka. One that attracted the attention of the Sri Lankan Central Bank and the government is called Gold Quest, based in Hong Kong. In the course of less than two years, the bank discovered at least \$15 million had left the country due to the scheme.



Gold Quest claims to be an ordinary multi-level marketing program of the types that are operating openly in the USA and other countries. Its business model is a classic MLM program in which each new investor recruitment others in an “endless chain.” Little actual retail selling occurs. Each “distributor” is also the “customer.”

Gold Quest markets gold coins and jewelry. Each person pays money and then receives cash or inventory after recruiting at least 10 new people in a “binary” system with 5 new recruits on each “side.” Each new investor is offered the same “business opportunity” forever.



Sri Lanka's Government Responds

The Central Bank of Sri Lanka (equivalent in purposes and mission to the US Federal Reserve) made “combating pyramid schemes” the theme of its 2005 Regional Conference, attended by bankers from six nations. Pyramid Scheme Alert President, Robert FitzPatrick, was invited to help facilitate the seminar and to make a [formal presentation](#). The other presenter was Mr. Chris Jarvis from the International Monetary Fund.



Prior to the seminar, Sri Lanka's president, Chandrik Kumaratunga, had issued a national warning about “network marketing” schemes. She pledged support of new laws to ban them outright.

The Central Bank applied current laws prohibiting the loaning of credit card usage. Investigators had discovered that many investors were being misled into loaning the usage of their credit cards to other people for the scheme's \$400 investment.

The Central Bank also persuaded banks not to facilitate transactions related to the scheme.

Sri Lanka's New Anti-Pyramid Act, Enacted in 2005

(1) No person shall directly or indirectly initiate, offer, promote, advertise, conduct, finance, manage conduct or direct a Scheme where a participant is required to contribute or pay money or monetary value and the benefits earned by the participant are largely dependent on

- (a) increase in the number of participants in the Scheme; or
- (b) increase in the contributions made by the participants in the Scheme.

For the purpose of this subsection “money” means a monetary unit or a medium of exchange that is issued, established, authorized or adopted by Sri Lanka or a foreign government; and “monetary value” means a medium of exchange whether or not redeemable in money, including in the form of stored value, payment instrument or credit to account and shall also include gold coin and gold bullion.

(2) Any person who contravenes the provisions of subsection (1) shall be guilty of an offence and shall be liable on conviction after summary trial before a Magistrate to imprisonment of either description for a term not exceeding three years or to a fine not exceeding rupees one million or to both such imprisonment and fine. Where the offense is committed willfully or knowingly, or with knowledge that the act will cause damage or harm to any other person, to rigorous imprisonment for a term not less than three years and not more than five years and to a fine of rupees two million or twice the aggregate amount in Sri Lanka currency revealed or divulged to have been received from the participants in the scheme, whichever is higher.

Sri Lanka's Government Responds

Actions Taken by Sri Lanka to Combat MLM Pyramid Schemes:

- ▲ Public statement of warning against the schemes from the highest elected official of the country, the President.
- ▲ Using existing bank regulations to stop pyramid scheme transactions in the nation's banks
- ▲ Using existing bank regulations to prevent the use of credit card transactions on behalf of people other than the cardholders.
- ▲ Publishing extensive promotional and educational materials to warn citizens about the deception and harm of recruitment-based multi-level marketing schemes.
- ▲ Passage of a new anti-pyramid scheme statute to halt all schemes based on endless chain expansion.
- ▲ [Sponsoring a public speech on pyramid schemes by Robert FitzPatrick, President of Pyramid Scheme Alert](#)
- ▲ Hosting an international seminar with banking officials from five other nations in which Pyramid Scheme Alert president Robert FitzPatrick spoke participated along with Chris Jarvis, a financial pyramid scheme expert from the International Monetary Fund.
- ▲ [Gaining extensive news media coverage](#) of the Central Banks' concerns, actions and warnings, including a formal press conference following the international seminar that was covered by television, radio and newspaper media.



The June 3 Seminar in which Pyramid Scheme Alert participated was conducted at the Central Bank of Sri Lanka in Colombo, a beautiful and ultramodern facility with video terminals on each desk for viewing speakers.

PSA President, Robert L. FitzPatrick with Bangladesh banking officials, M.D. Ali Azam and Debaprosad Debnath



A formal press conference was held after the international seminar which was covered by radio, television and several newspapers. Front page coverage was given to the event.

Sri Lanka's Great Challenge from MLM Pyramid Schemes

“The potential adverse implications of pyramid schemes are clear and not difficult to understand. However, combating of pyramid schemes is more challenging as the prevention of establishing such new schemes, identification of the existing ones and closing down their activities are not easy even though they are possible. Such combating actions not only require an appropriate legal authority but also need continuous vigilance, a broader public awareness, and strong commitment of the authority as pyramid promoters introduce these schemes with different faces and modalities in order to take advantages of loopholes in the existing legal system and/ or to circumvent the prevailing regulatory system. In this endeavor, the benefits of improving our understanding about international experiences and strengthening regional co-operation cannot be underestimated in the increasingly globalizing environment.”

--Dr. A. G. Karunasena, Assistant Governor
Central Bank of Sri Lanka

An ancient culture, a modern nation, an emerging economy face a new form of global fraud:
multi-level marketing

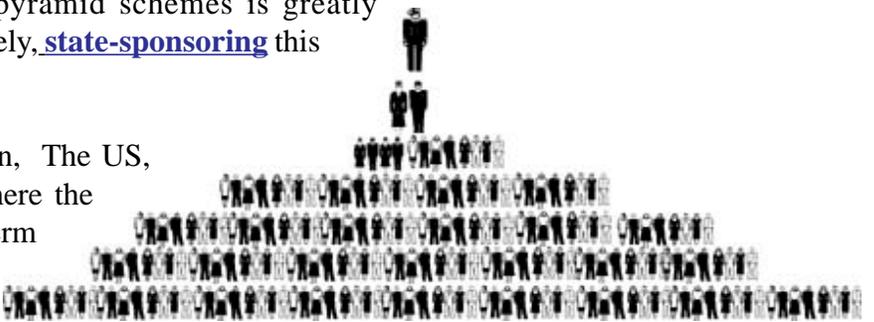


The “American” Problem

by [Robert L. FitzPatrick](#)

In my presentations in Sri Lanka I had to acknowledge a very sad fact - sad and shameful for me as an American citizen. The United States of America is the nexus of the global fraud we call multi-level marketing (MLM). The ability of smaller countries to combat pyramid schemes is greatly complicated by the fact the USA is, effectively, [state-sponsoring](#) this type of scam.

Pyramid schemes are a global phenomenon. The US, the largest of all market economies, is where the original Ponzi scheme occurred and the term was coined. Additionally, the USA is where “multi-level marketing” was born and is the headquarters of the largest number and biggest of such schemes.



Today, as a direct result of the political contributions and support these schemes have given to our current administration and its political party, the US has effectively stopped prosecuting pyramid sales schemes. There is much publicity now about the scheme, [SkyBiz](#), paying restitution in various countries. More than one-million people worldwide were scammed by this US-based multi-level marketing company. However, investigations of this scheme began more than five years ago. The picture is much different today. In the last five years, there has been no other major prosecution. Consequently, the recruitment-based pyramid sales schemes, [camouflaged as ‘direct selling’ companies](#), are multiplying and invading more and more countries.

Other countries are being pressured to weaken their anti-pyramid laws. Recently Singapore changed its strict prohibition against pyramid selling scams by “excluding” schemes in which the investment involves purchasing a product or service. This huge loophole allows pyramid scams that launder money through product “sales.” Singapore’s weakened law is identical to the one [being promoted in various states in the US and in the US Congress](#), backed by the Direct Selling Association, the lobbying arm of the pyramid selling industry.

After banning MLM, China is being heavily pressured to allow it. China has delayed adopting a more lenient law, but the MLM schemes are already moving to China with the expectation of official leniency. The WTO rules have been interpreted to mean that pyramid selling should be allowed.

The schemes that threaten Sri Lanka, China and other nations camouflage themselves as “direct selling” companies. In fact, they are pyramid recruitment scams [that always produce a 99% loss rate for investors](#). With sophisticated deception, they steal savings from large numbers of people and transfer the money to a few perpetrators. They corrupt local officials by offering them a position “at the top” to gain entry.

It will indeed be difficult for countries such as Sri Lanka to stand up to these American-based pressures. Yet, when the truth about the harm these schemes cause is revealed and publicized, local officials are much better able to take decisive action on behalf of their people.

It was a privilege for me to participate in the Sri Lanka seminar. I was impressed by the courage and insight shown by Sri Lankan leaders. The experience also powerfully reinforced the value of Pyramid Scheme Alert’s mission and purpose.