

June 2012

Destiny and Illegal MLM in Bangladesh

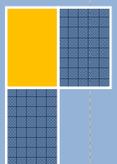
Rafia Afrin, with Daniel Sabet

Monthly Current Events Analysis Series

Center for Enterprise and Society of the University of Liberal
Arts Bangladesh



The newly created Center for Enterprise Society (CES) at the University of Liberal Arts Bangladesh (ULAB) seeks to advance understanding of the opportunities and challenges to entrepreneurship and enterprise development in Bangladesh through objective, academic study. For more information, please visit: <http://www.ulab.edu.bd/CES/center-for-enterprise-and-society/>



Introduction

While an investigation is underway, the alleged fraudulent activities of the multilevel marketing (MLM) company Destiny 2000 Limited have stirred the whole nation recently. The case has brought the poorly understood practice of MLM to the fore and has posed serious questions regarding how a possible scam of this extent could be sustained for so long. Inadequate understanding on part of the investors, lack of social awareness, corruption, a weak regulatory framework and even weaker implementation are mainly to be blamed for this debacle. Many more scandals like this might be imminent, if immediate actions are not taken. With millions of investment dollars and the fate of thousands of investors at stake, the effects of the problem dig deep into Bangladeshi society. This analysis will try to explore the basic problem, causes and ramifications of the MLM issue in Bangladesh in light of a case study of the Destiny group.

What is MLM?

Multi-level or network marketing (MLM) is one of the most complicated of business models. Traditional MLM emerged as an innovative tool to sell consumer goods to a large market without going through traditional retail shops.¹ Instead, MLM based companies sell their products through a large network of self-employed distributors. The United States based multinational Amway is perhaps the best known example.

MLM works in the following manner: Company X will recruit Vender A to sell its products. For each unit that Vender A sells, he gets a commission. To encourage the growth of the distribution network, however, Company X tells Vender A that he can earn a lot more money if he recruits other vendors to sell products. So Vender A recruits Vender B and five other friends to sell products. Now, rather than spend as much time selling products directly to consumers, Vender A becomes Distributor A and supplies products to Vender B and others, earning a commission for everything sold. After gaining some experience, Vender B might recruit and sell to Vender C and five other friends. If he does, Distributor A will earn commissions from what both B and C sell. As long as the rewards are based on selling products to consumers, MLM is a legitimate business model, particularly if Company X buys back unsold goods from its vendors. The problem occurs when the product gets lost and the commissions become based solely on recruiting new members. Then MLM becomes what is known as a pyramid scheme.²

What is a pyramid scheme?

As its name indicates, the pyramid scheme is structured like a pyramid. It starts with one person or company - the initial recruiter - who is on top, at the apex of the pyramid. This person or company recruits investor A, who is required to "invest" say \$100, which is paid to the company. In order to make his or her money back, the new recruit must recruit investor B and other investors, each of whom will also have to invest \$100. Investor A earns a commission on each investment he brings in, and, as long as the pyramid continues to grow, he will make his money back and a handsome profit.

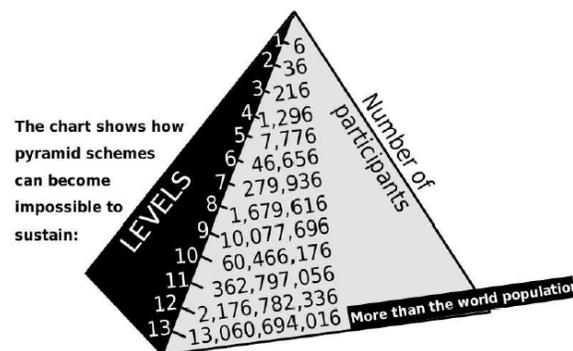


Figure 1

Source: http://en.wikipedia.org/wiki/Pyramid_scheme

The problem is that the pyramid scheme cannot go on forever because there are a finite number of people who can join the scheme. As Figure 1 illustrates, if each layer of the pyramid entails six investors, by the 13th layer there are no more potential investors - even if all the people in the world join! People are deceived into believing that by giving money they will make more money, but they can only do so by taking money from others. No wealth is created and no product/service is sold. So, all pyramid schemes eventually collapse and fail.

A look into the Destiny Case

Destiny 2000 Ltd - the largest company of the Destiny Group, is a multinational multi-level marketing company, which first started its operation in Bangladesh in December 2000 and is registered by the Department of Cooperatives. Lt. Gen. Harun Ur Rashid is the chairman of the group while Mohammad Rafiqul Amin is its managing director.³ If the allegations are correct, Destiny group appears to have merged the logic of MLM, an investment company, and a pyramid scheme. Rather than sell a product, the group sold stakes in different profit-making endeavors, such as a tree farm, an infrastructure project, and an upscale residential building. Destiny clients were promised that if they invested a certain amount of money, they would be paid back double their money within a certain period of time. More importantly, if they recruited other people to raise additional investment funds for the company, then they would earn additional commissions. The model was enormously “successful,” and it is estimated that about 5 million distributors joined the company from all over the country.

Unfortunately, it appears that many of the supposed profit making endeavors never actually existed, others were money losing endeavors, and the remaining initiatives would certainly not profit enough to pay investors back at the promised rates.

De facto, Destiny Multipurpose Cooperative Society Limited, a sister concern of Destiny 2000, has operated as a financial institution or bank, though no such permission has been granted by Bangladesh Bank (BB). Though the group had earlier applied for the establishment of Destiny Bank Limited, the application did not reach any level of active consideration. Undeterred, the group started selling shares of the bank to its members. The group had also sold shares of other non-existing projects, including Destiny Life Insurance Company Limited, Best Air, Destiny Shopping Center Limited, Destiny Medical College and Hospitals Limited, Destiny Tea Limited, and Destiny-Geely Automobiles Limited (a non-existing car assembling plant claimed to be established under joint venture with Chinese company Geely Automobile Research Institute).⁴ Furthermore, many of their actual products were unsustainably overpriced and some operations like tree and real-estate projects were recently declared by the government to be illegal for MLM companies to deal in.

As featured in a recent report,⁵ one of the main projects under which Destiny collected millions from Bangladeshi people was their 'Tree Plantation Project' in the Chittagong Hill Track area. The company promised investors 10% annual returns, but fulfilling this obligation would require Destiny to pay an astounding US\$ 50 million annually. The report finds other abnormalities as well. According to experts, less than 300 trees can be planted on one acre of land, but the company is believed to have sold over two million trees. This would require ownership of at least an unlikely 6,666 acres of land in the Chittagong Hill Tracks.

Actions so far

It is not clear why Destiny was able to grow to five million members without any governmental intervention. As reported, the entity had already collected about BDT two billion from the public as early as March 2000. One hypothesis is that the group's well connected leadership kept regulators at bay. Another is that as the company was technically considered a non-financial institution, it fell through the regulatory cracks. A third is that it undertook a successful public relations campaign. Destiny started a vernacular daily newspaper and a satellite based television channel. Both of these are money losing endeavors – it is estimated that Destiny is losing at least BDT 10 million a month from its newspaper venture and BDT 30 million per month for its TV channel - nonetheless, these media outlets have offered the company a mouthpiece to defend its reputation.

Finally, the long neglected issue came to the public's full attention following a Bangladesh Bank (BB) report sent to the finance ministry, revealing evidence of illegal banking by Destiny Multipurpose Co-operative Society.⁶ This was followed by a number of investigative media reports that prompted the government to initiate investigation into the activities of the group. Following the BB report, the Department of Cooperatives, which is the principal regulator of cooperative societies, and the Anti Corruption Commission have already started investigations into a series of allegations of corruption, fraud and irregularities inside Destiny 2000 Limited and its sister concerns. The National Board of Revenue has also moved to probe possible tax dodging and money laundering by the group and has already instructed banks to freeze accounts of Destiny 2000 and those of several of the group's officials.⁷ Meanwhile, after hearing the news of the BB investigation report, several offices of the group were found shut down while the employees went into hiding.⁸

Looking ahead

There are about 62 so-called MLM companies in the country and it appears that most of them are Pyramid Schemes in disguise of legitimate MLM businesses.⁹ It has recently been reported that at least two other companies have defrauded public by billions: Unipay-2 and Jubok.¹⁰ Nonetheless, because there is no government monitoring of the activities of the MLM companies in Bangladesh, no one really knows how much money any MLM company is collecting from the people and how much they are either investing or simply spending in bad projects.

It is therefore important to make it mandatory for MLM companies in Bangladesh to publish their annual report with specific information on how much money they collected from people and under which project; how and where this investment was used, along with profitability, expenditure and asset details. The government is already moving towards greater regulation. The commerce ministry has recently sent a letter to the Securities and Exchange Commission and other stakeholder agencies, asking for their opinion on an MLM act - Direct Sales Law-2011 - in a bid to increase accountability of the MLM business. The ministry has assured that the MLM (Control) Act 2011 will soon be enacted. A draft law on the marketing strategy has already been formulated with provisions of prison, fines and cancellation of licenses if the MLM companies are found engaged in 21 types of businesses. In line with the draft proposal, the government will form a department, which will be known as 'Direct Sales Directorate' and a secretary will be appointed to regulate the businesses.¹¹

Conclusion

Only time shall tell whether the 'mistakes' made in the Destiny case were willful or otherwise. As for future, we can only hope that proper rules and regulations are developed as promised, and more importantly, followed. Furthermore, the whole society should work in unison to create public awareness and cautiousness on the issue. Otherwise the consequences will be enormous and millions of investors will continue to be cheated out of billions of Taka every year.

¹ http://en.wikipedia.org/wiki/Pyramid_scheme

² Jon M. Taylor. *When Should an MLM or Network Marketing Program Be Considered an Illegal Pyramid Scheme?* Consumer Awareness Institute. 2000. Accessed at:
<http://www.pyramidschemealert.org/PSAMain/regulators/PPSdefined.pdf>

³ http://destiny-2000.com/index.php?option=com_content&task=view&id=5&Itemid=6

⁴ Destiny 2000 Limited clients cheated. News Desk. Weekly Blitz. March 30, 2012. Accessed at:
<http://www.weeklyblitz.net/2216/destiny-2000-limited-clients-cheated>

⁵ Illegal Aspects of MLM (Multi-Level Marketing) Business in Bangladesh, Accessed at:
<http://www.scribd.com/postmanbd/d/64799739-MLM-Scam-Fraud-Illegal-Destiny-Bangladesh>

⁶ Cheating Thru' Mlm, Destiny under scanner. Staff Correspondent. The Daily Star. April 3, 2012. Accessed at:
<http://www.thedailystar.net/newDesign/news-details.php?nid=228790>

⁷ Doulot Akter Mala. NBR freezes Destiny's accounts. May 24 2012. Accessed at:
http://www.thefinancialexpress-bd.com/more.php?news_id=130558&date=2012-05-24

⁸ Destiny 2000 Limited clients cheated. Weekly Blitz.

⁹ Illegal Aspects of MLM

¹⁰ Shamsher Chowdhury. Whose Destiny is it anyway? The Financial Express. April 7 2012. Accessed at:
http://www.thefinancialexpress-bd.com/more.php?news_id=125897&date=2012-04-07

¹¹ Illegal Aspects of MLM