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Understanding the operating mechanism of the Modaraba Scam: Victims' perspective on a Ponzi scheme

Irfan Ullah · Waqar Ahmad · Arshad Ali

Abstract This study aims to explore the operating mechanism of the Modaraba Scam that emerged as a viable investment opportunity in Pakistan and ultimately unraveled as a mega Ponzi scheme. Thematic analysis of the findings reveal that the scam emerged with the conception of a sharia-compliant business and gained validity by the intermediation of religious clerics. Initially the scam operators paid out substantial profits to attract maximum investment. However, soon after, the profit was discontinued and the agents escaped. This research adds to the literature on fraudulent investment traps and can help in the identification of similar Ponzi schemes in the future.

Keywords Modaraba · Modaraba scam · Ponzi scheme.

1 Introduction

Investors are risk-averse in general, attempting to strike a balance between risk and return. Sometimes, however, fraudulent high return no risk investment opportunities lure investors, by inciting the desire to earn sure shot profits. Ponzi schemes are among such fake investment arrangements which offer an unbelievable rate of return on investment. Investors' put their money in the schemes as a rational investment decision, only to later realize that the scheme was not a genuine business opportunity but a scam. Unlike normal investments, such schemes have a different operating mechanism where the amount of investment from later investors is used to pay the claim of earlier investors.

Modaraba is a partnership contract in islamic finance where the owner of the

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fund / Rabul-Mal invests money and the manager / Modarib invests knowledge, skills, and abilities to run a legal and permissible / halal business (Brown et al 2007; Usmani 2002). Profits from the operations are distributed according to an agreed ratio. However, the loss, if any, is borne by the Rabul-Mal only (Usmani 2002). In order to regulate such a form of business in Pakistan, Modaraba companies register and operate under the Modaraba Companies and Modaraba (Floatation and Control) Ordinance, 1980 (GoP 1980).

The Modaraba Scam was a financial fraud perpetrated in Pakistan under the umbrella of the Modaraba form of business. In this scheme, a majority of the perpetrators were religious clerics professionally known as Imam, Aalim, Mufti and Mobaligh.¹ They brainwashed people against investing in interest-bearing schemes of banks and other financial institutions and proposed the Modaraba scheme as a sharia-compliant business that offered a six to eight percent monthly return² along with the safety of the principal amount (Klasra 2013). The scheme quickly gained many investors.

A complaint of this dubious and suspicious activity was lodged by the Securities and Exchange Commission of Pakistan (SECP) with the National Accountability Bureau (NAB) (Raza 2013). As a consequence the NAB cracked down on the perpetrators of the scam and issued orders for a formal investigation and country wide arrest of the culprits. All along, the volume of the scam amounted to PKR 500 billion and victimized 13000 investors.³

This paper aims to explore the operating mechanism of this Modaraba Scam. The study is qualitative and data has been collected through semi-structured interviews with sample investors of the Modaraba scheme. Thematic Analysis technique has been used to derive the results. We claim that this study is the first ever rigorous research on Ponzi schemes in Pakistan in line with the fact that Tennant (2011) and Wilkins et al (2012) found a significant dearth of literature on Ponzi schemes.

2 Literature review

Unlike hedging and speculative financing, Ponzi financing is a phenomenon where payment of interest on debt and retirement of the principal amount is made by taking additional debt rather than from genuine earnings (Minsky 1982). Likewise, Ponzi schemes are fraudulent investment arrangements where a scammer collects money from investors with the promise of high periodic return at no or low risk (Nipp 2011; Nolasco et al 2013; Pozza et al 2009; SECP

¹ Imam is a term used for prayer leader, Aalim for religious scholar, Mufti for a person who can give ruling on matters relating to religion and Mobaligh (one who belong to Tablighi Jamaat) for a person who urges the masses to return to the path of the Quran and Sunnah.

² which is equal to 72-96 percent annual return (Abbasi 2013)

³ reportedly, the amount of the scam and victims/complainants was Rs 5.9 billion and 7969 respectively (Sharif 2014). Raza (2013) and News (2013) claimed that amount was Rs 30 billion while victims were 10000 and 13000 in number respectively. Sathi (2014) reported that the amount of the scam was more than Rs 35 billion and victims were 25000. Furthermore, Rasheed (2013) claimed that the total amount of the scam was Rs 200 billion, Abbasi (2013) claimed Rs 280 billion, Javed (2014) claimed Rs 330 billion, while Tarazi (2013) claimed an amount of Rs 500 billion

2004; Searcy 2014). Such returns on investment allude to deem the business as a profitable investment opportunity (Pozza et al 2009).

However, these returns are usually not investment generated (Buckhoff and Kramer 2011; Ionescu 2010; Lewis 2012). Profit on investment and withdrawal of principal is met either from an amount of the same investment or from the amount of investment of new investors (Yang 2010; Drew and Drew 2010b; SECP 2004; Searcy 2014).

Ponzi schemes accumulate investors' deposits, carry on little or no formal business operations and promise a higher return on investment to attract more investors (Pozza et al 2009). Return on investments are usually paid from deposits of new entrants (Tsai 2009), and the scheme progresses through word of mouth without proper documentation of its functioning (Lewis 2012). Ponzi schemes follow the principle of rob-Peter-to-pay-Paul (Walsh and Spalding Jr 2012; Burke 2009) which means that Peter's money is used to satisfy the claim of Paul.

The scheme starts off when an agent comes up with a lucrative business idea having the potential to generate a very high return (Wilkins et al 2012). Such an idea may be like transacting foreign currency exchange, import, export or any other high yield investment program. People are then convinced to invest in the scheme. As a part of the scam strategy, earlier investors in the scheme are paid the promised rate of return well in time (Tsai 2009). They, thus serve the role of songbirds and introduce friends and family members to the scheme. What they fail to realize is that the periodic return is actually not a return on investment but the return of actual investment (Buckhoff and Kramer 2011).

The scheme grows exponentially with the continuous enrolment of new entrants. However, a time comes when the con artists are unable to attract more investors at the requisite velocity. As a result, the return on investment decreases (Drew and Drew 2010a; Nipp 2011). Eventually, with the persistent decrease in contribution from new investors, agents are unable to pay the promised rate of return and thus the scam unveils. In a nutshell, the scheme progresses well and veils the scam as long as new investors make contributions into the scheme and current investors receive the return (Drew and Drew 2010a; Nipp 2011). It ultimately untangles when scammers are unable to make the promised payments and disappear (Drew and Drew 2010b; Tsai 2009).

The lifecycle of the scheme remains erratic all along as its net assets comprise of total inflows minus outflows. Liabilities consist of deposit obligations plus outstanding profit. In reality, no investment is made, assets remain almost zero and liability grows from day one, so the scheme is insolvent right from the start (Lewis 2012). However, the lifespan of the scheme is dependent upon the investment growth rate and the dividend payout rate. If the investment growth rate is greater than the dividend payout rate, the scheme's life will be lengthy, and if the dividend payout rate is higher than the investment growth rate, the scheme's life will be short (Yang 2010).

In the long run such schemes are not possible to sustain (Buckhoff and Kramer 2011; Furman and DeJoy 2009; Trahan et al 2005; Walsh and Spalding Jr 2012). This is because the growth in money or recruitment of new investors should be exponential in order to pay the earlier investors. However,

beyond a certain point, it is not possible to recruit new investors regularly at the required rate. To exemplify, if only six investors are enrolled initially, then just by going 13 levels ahead, the scheme needs to enroll more investors than the entire population of the world (Furman and DeJoy 2009; SECP 2004).

In Ponzi schemes, asymmetry of information exists. Investors contribute money to the scheme in good faith by considering it a genuine business opportunity. But all of a sudden, they realize that the scheme is a Ponzi. Earlier research on this matter has revealed that the emergence and operation of Ponzi schemes becomes more common during booms while most of them are uncovered during periods of financial crisis (Drew and Drew 2010b; Pozza et al 2009; Zhu 2010).

Demand for money remains high during recession and Ponzi schemes are unable to catch new investments, resultantly the scammers cannot make payments to the existing investors (Clauss et al 2009; Drew and Drew 2010a; Tennant 2011). For example, Charles Ponzi's business was successful as long as earlier investors were paid the promised return, but ultimately the scheme unearthed when Charles was unable to pay the later investors (Tsai 2009). Likewise, Mad-off admitted to investors' claims of about US\$7 billion (Buckhoff and Kramer 2011; Lauricella et al 2008; Searcy 2014). To simplify, Buckhoff and Kramer (2011) find that Ponzi schemes are exposed in the following forms:

- (1) the scammer or promoter runs away taking the entire amount of the investors
- (2) as contribution from new investor slows down, scammers become unable to pay existing investors the promised return, creating investor panic and a bank run situation
- (3) regulators expose the scheme as a Ponzi
- (4) the scammer himself confess that the scheme is a Ponzi

3 Methodology

Snowball sampling⁴ was used to identify sample respondents.⁵ Participants were interviewed through semi-structured interviews in seven districts⁶ of the province.

Fieldwork⁷ was executed in the light of an interview guide developed after a thorough literature review, validation and pilot study. Each interview⁸ started with a brief discussion of the purpose of research in order to encourage the respondents to share their experiences without any hesitation. The respondents were asked to answer a set of questions sequentially and were encouraged to

⁴ This research used the snowball sampling method for two reasons. First, the Modaraba scheme followed the snowball approach to enroll new investors. Secondly, most of the investment agreements in the scheme were not properly documented and hence it was difficult to identify investors with other sampling techniques.

⁵ Eighteen sample respondents were approached out of the total investors of the Modaraba scheme who were resident of Khyber Pakhtunkhwa province of Pakistan.

⁶ Malakand, Dir Lower, Swat, Bajur, Mardan, Charsada, and Peshawar

⁷ The data collection period lasted from November 2014 to March 2015

⁸ The smallest interview lasted for 13 minutes while the longest for 44 minutes duration

share their opinion in detail so as to fully grasp the dynamics of the Modaraba scam. Each interview has been audiotaped with the permission of the respondents using a high-quality audio tape device⁹. Keeping in view the questions from the interview guide and the flow of discussion, the fieldworker objectively looped the discussion during the interview.

Data gathered from the interviews has been analyzed thematically. This is a technique where themes or patterned meanings in the qualitative data are recognized, probed and interpreted in a systematic manner (Rohleder and Lyons (2014); Reis and Judd (2000)). For generating plausible themes, this research preferred an open coding method.¹⁰ The audio tapes of the interviews were transcribed on the day of the interview. The data was reviewed again to ensure the accuracy of the transcription and errors and omissions were rectified.

During transcription, each investor was awarded a unique identification code as V-xx¹¹ and a document was saved in the same name that consisted of all the replies of the captioned respondent. Replies of all respondents' (V-01 to V-18) against each interview question were classified that enabled the researcher to know the stance of all respondents on each question separately. Furthermore, every reply of each respondent against each question has been analyzed to identify similarities in responses. Suitable themes have been developed and finally, each theme has been discussed in the light of supporting arguments by the respondents to answer the questions of the research.

4 Findings and discussion

In the Modaraba scam, the mean age of investors was 37 years and the majority¹² were middle-aged. No one among the victims was illiterate¹³ or unemployed¹⁴ and a half of the respondents proclaimed no prior experience in investment. Even, among the experienced investors, no one had more than ten years of experience. The average investment amounted to one million Pakistani rupees and 90 percent¹⁵ of the investors lost their principal investment amount.

These statistics revealed two things. First, the modaraba scam swindled mainly educated and middle-aged investors with little or no investment experience. This finding affirms the results of Wilkins et al (2012) on parameters like education and experience but, contradicts their results on parameters like age

⁹ Samsung Galaxy Note III

¹⁰ A coding technique used to discover concepts, ideas and theories through analysis of the written text (Corbin et al 2008)

¹¹ V is the notation for Victim, and xx is the victim number that ranges from 01 to 18 as per the order of interview

¹² Out of 18 sample respondents, 16 were from the age range 35-50 years

¹³ Out of total 18 respondents, two had sixteen years of education, four each had fourteen, twelve and ten years of education and two each had eight and five years of education respectively

¹⁴ About 57 percent of respondents had their own business, 33 percent were government servants and 11 percent were working in the private sector

¹⁵ Out of the total respondents, two respondents received back the principal amount, ten respondents received profit only and six respondents received neither profit nor the principal amount

and profession as according to them investors were mostly old and retired. Secondly, the victims invested substantially in the scheme. The amount of average investment was seven times more than the amount of per capita income¹⁶ of the country in the years of the scam.

4.1 The operating mechanism of the scam

4.1.1 *The advent*

The advent and diffusion of the Modaraba scheme was led by prominent religious clerics. The scheme, as proclaimed by the victims, emerged from a leading religious institution of Karachi¹⁷ and was led by some renowned religious scholars.¹⁸ The founder of the scheme managed to recruit religious scholars, prayer leaders and preachers of each locality as agents in the scheme. These agents were assigned the tasks of raising public money for investment, channelling it to the founder of the scheme and distributing the profit to investors at the promised rate and time. In turn, the agents were to receive an agreed upon commission.

To capitalize on this opportunity, some of the agents also invested their own money in the scheme. When they received a timely and robust rate of return, they unfolded the information to their friends and family members. The friends and family members then invested in the scheme but the information was not yet fully public. Up till then, the investment opportunity was only limited to the agents-cum-clerics who either invested their own money or the money of their near and dear ones.

4.1.2 *The magnification*

With the passage of time, the rate of profit and flavour of commission enticed the agents and they started floating information to the general public. The agents, due to their notable position in the muslim community, convinced the public to invest¹⁹ on the basis of the argument that the modaraba is an islamic investment opportunity. They mildly warned people that conventional investment with banks and other financial institutions, being interest based, is prohibited in Islam. A large number of investors, thus, rushed into the scheme and invested substantially. A respondent V-13 asserted:

– *I came from Saudi Arabia to spend the vacations, someone informed me of the Modaraba scheme. Instantly, I went to a Mufti, who was an agent too, to ask about the genuineness of its operations. He replied that this is Modaraba*

¹⁶ As per the Federal Budget 2013-14, per capita income of Pakistan was PKR 138,400 while the average investment in the Modaraba scheme was PKR 1,000,000

¹⁷ None of the respondents was able to specify the name of the religious institution, however, all respondents had the perception that the scheme had emerged from a religious institution of Karachi

¹⁸ Respondents associated different names with the founder of the scheme, like Mufti Ihsan ul Haq, Mufti Naeem etc, however, a majority of them named Mufti Shafiq as the key founder

¹⁹ About 78 percent, and sources like friends, relatives and others informed about 22 percent, 11 percent and 33 percent of the investors respectively.

business, agents collect money from investors and conduct business with that money. I asked him, whether these operations contained any element of interest. He replied, it has nothing like interest and you should invest on my guarantee. I then invested without any hesitation.

A respondent V-03 lamented:

- *I don't know, how this scheme emerged? I just remember noticing that a number of people had covertly invested in the Modaraba scheme and were very happy with their investments and plenty of others were also investing daily. So, I invested too.*

The agents became dignified intermediaries between investors and the scheme's founder. Unlike the normal course of business, where the agents strive to convince the investors to invest, many investors even visited the agents' home to get a place in the scheme. A respondent V-06 narrated:

- *The Modaraba scheme became so popular that the investors went to the agents and begged them to invest their money. The simple reason was that these agents portrayed the Modaraba scheme as a unique permissible business operating purely on sharia principles.*

4.1.3 The unmask

As long as the Modaraba scam was adding new investors and paying profit to investors at the promised rate and time, no one realized that the scheme was actually a scam. However, a time came when the agents started to defer the profits for more than the promised period. A respondent V-04 argued:

- *When I did not receive the periodic profit on the stipulated time, I went to the agent. He told me that "I will pay you a profit for this period along with the profit of the next period. Just wait for a few months, you will receive a handsome amount."*

In the next step, the periodic profit discontinued as pointed out by V-09:

- *I received the first installment of profit well in time but the second installment was delayed by one and a half month. In this period, whenever I contacted the agent, he told me that the goods are in transit and very soon we will receive your share of profit. Afterwards, I neither received profits nor the principal amount.*

The respondent V-04 further argued:

- *On the first few deferrals, we did not panic. However, when the deferred profit started to rise and agents were neither meeting us nor attending our phone calls, then I had a suspicion.*

A respondent V-11 summed up the unearthing of the scam:

- *Initially, when profit stopped, the investors started coming to the agents. Initially, the agents were able to manage the investors' panic by making excuses for a period of five to six months. Afterwards, the investors' pressure was persistently building on the agents, so they escaped. A few days later we found in the news that the Modaraba scheme was not a business but a fraud.*

On this parameter, we partially affirm the result of [Buckhoff and Kramer \(2011\)](#) that the Modaraba scam was unearthed in two ways. One, when the agents escaped due to their inability to pay periodic profit to investors. Two, when the regulators revealed that the scheme was not a registered business and the media spread the news that the modaraba business was a scam.

4.2 The operational design

The Modaraba Scam conned investors with the intermediation of iconic agents. The operations were designed such that trustworthy agents raised public money by diffusing believable business ideas to investors. In the early stages, profit was distributed to investors well in time at the promised rate that enticed more and more investors. However, after paying a couple of periodic investment returns and gaining the trust of the general public, the profit stream broke down and the agents ran away.

4.2.1 Raising of public money through trust anchors

The growth of the scheme signifies that the trust of the investors in the notable agents played a vital role in the success of the scam. Trust anchor is a theme this research is adding to literature. Trust anchors are those people who can be trusted blindly. The scam remarkably capitalized on the trust of the followers on their religious leaders. A respondent V-02 pointed out:

- *To be honest, I did not invest in the Modaraba scheme because of the popularity of this business. I did so on the assurance of a religious leader of our locality regarding the permissibility of this business. He insisted to invest and I did because he is a person, an Imam, none can distrust.*

The agents very easily collected millions of rupees from investors. These investors did not even bother to ask the agents about their line of business. The reason was simply the credibility of the professions of the agents. The respondent V-05 stated:

- *I did not know anything about the business operations of the Modaraba scheme. In fact, almost all of the agents were prayer leaders, so no one reasoned in detail as to what they did with our money. No one believed that they could deceive us.*

These excerpts led us to opine that intermediation of religious clerics motivated the investors at large to invest in the Modaraba scheme. The investors blindly trusted their agents as they belonged to a noble profession. These results, affirm the findings of [Baker and Faulkner \(2003\)](#), [Burt \(1999\)](#), [Kadushin \(2012\)](#), [Nash et al \(2013\)](#), [Blois and Ryan \(2013\)](#), [Comet \(2011\)](#), [Perri and Brody \(2012\)](#) and [Valente and Davis \(1999\)](#) that social networks and opinion leaders²⁰ serve a key role in the diffusion of Ponzi schemes to the victims.

²⁰ persons in the community that are considered as the most influential and respected

4.2.2 Diffusion of believable ideas: Business-you-believe

Business-you-believe is an investment opportunity that may or may not have a physical existence but it is attractively portrayed such that it compels people to believe. It is a new theme that this research is adding to literature. While raising funds, the agents presented the investors with the profitable business ideas of the Modaraba scheme. The scheme captivated the investors in a manner that they believed it to be a unique investment opportunity. A respondent V-01 narrated the appealing ideas as:

- *The agent told me that we import cables that are used by the big companies of the country. It costs Rs. 70,000 to buy these cables on cash basis; Rs. 100,000 on short term credit; and Rs. 150,000 on long term credit. So we purchase on cash basis and sell on credit basis to avail the benefit of the difference in price. We also have poultry farms in Malaysia, from where we export (poultry) all over the world. Besides that, we have a cattle farm in Australia too.*

A respondent V-03 said:

- *An agent told me we bought one lot of potatoes having 30 sacks with your money. After selling 20 sacks, we recovered the total cost of the lot. Resultantly, it earned 10 sacks of potatoes. Then, unfortunately, out of the remaining 10 sacks, 5 sacks got spoiled. We deployed labour to sift through the spoiled sacks and extracted half of them. To sum up, the lot of 30 sacks actually earned 7.5 sacks.*

A respondent V-11 highlighted:

- *The agents told different stories to different people. Like we buy property and construct buildings. If it costs us 20 Lacs, we are able to sell at 60 Lacs; we buy international products in the foreign market and sell it with a heavy profit margin in the home country; we deal in gold and we deal in mines and minerals.*

Based on these excerpts, we claim that Modaraba scam deceived investors with believable business ideas, irrespective of its existence. The typified business operations were just tools to collect investors' money. Our findings confirm the result of [Wilkins et al \(2012\)](#) and [Frankel \(2012\)](#) that scammers in Ponzi schemes come up with a believable investment opportunity to encourage people to invest.

4.2.3 Managing the return

Modaraba scam offered a rate of return ranging from 60 percent to 120 percent²¹ to different investors. Some of the investors²² received the promised periodic profit, but only on initial investments in the initial stages of the scheme. Out

²¹ V-08 and V-07 respectively admit that the agent offered him Rs 15 thousand per month on investment of Rs 3 lacs and Rs 10 thousand per month on investment of Rs 1 lac

²² As 10 investors out of 18 received the periodic profit

of these recipients, 70 percent²³ received the first installment of profit and the remaining 30 percent received the second installment of profit too. But none of the investors received more than two installments²⁴ of profit. Investors V-09, V-14, and V-03 respectively talk about the periodic profit as:

- *I invested rupees three lacs first and five next, to be honest, I received profit once only.*
- *The agent presented the Modaraba business in an imposing manner, so I invested. But, I received the periodic profit just once.*
- *He (agent) paid me (profit) the 1st and 2nd time at the rate of Rs 6 thousand per month per lac.*

There were few²⁵ fortunate investors who withdrew their investment from the scheme. On examining the dates of investments, we found that the investors who managed to withdraw their investments were those who invested early in the year 2012. Investors who received nothing are those who invested in the year 2013.²⁶ A respondent V-11 narrated:

- *The agent promised and paid the people a profit of 10 percent. It is unfortunate that I invested late in the scheme, so I never received any profit too.*

Table 1: List of themes

The operating cycle of the Modaraba Scam	
Theme	Description
The Advent	The emergence of an attractive novel scheme, carrying a sharia compliant business where a majority of the agents and owners were religious clerics.
The Magnification	The scheme become a good investment opportunity due to the attractive rate of return and intermediation of religious clerics. Resultantly, public invested substantially in the scam.
The Unmask	The deferral of the profit followed by discontinuity of profits and ultimate escape of the agents
The operational design of the Modaraba Scam	
Raising of funds through Trust Anchors	Being middlemen, trust anchors raised public money and channeled it to the perpetrators in return for commission. In this scam, religious clerics served the role of trust anchors.
Diffusing the ideas of Business-you-believe	While collecting public money, trust anchors diffused some believable business ideas to investors. The ideas were so appealing that investors believed them without verification that whether these business really exist or not.
Managing the return	The distribution of profit was tactfully maneuvered. The earlier investors in the scam were regularly paid the promised rate of return, which mobilized more and more investment in the scam.

²³ Seven investors out of ten profit recipients received two installments while the rest of the three investors received only one installment

²⁴ As a single installment of profit comprised of a three-month payment. So, we can conclude that none of the investors received more than six months profit

²⁵ Only two investors out of 18 withdrawn their principal amount

²⁶ The scam was publicly unearthed in the year 2013

On this parameter, we conclude that the Modaraba scam paid a hefty rate of periodic profit regularly in the early days but this was not prevalent after six months of the introduction of the scheme. Withdrawal requests of the principal amount were also honoured only in the early stages of the scam. To make the scam sustain for a longer period, the perpetrators managed to convince the investors to wait for periodic profit for three months. Each installment of profit, though calculated on monthly basis, was supposed to be paid after every three months. A respondent V-15 pointed this out:

- *He (agent) paid me the profit for the 1st and 2nd time at the rate of Rs 6 thousand per month per lac. But each installment that I received was after a period of three months.*

Besides offering a fixed lucrative rate of return, Modaraba scheme offered some investors a transaction-based return whereby the profit share of the parties would be calculated after each transaction. Akin to believable business ideas, this technique of profit calculation was also very much appealing. A respondent V- 07 admitted:

- *He (agent) told me that first, we purchase a whole lot of Potatoes. Then we grade the commodities as A and B (good and bad quality). Then we invest the money of some investor in grade ‘A’ commodity and other’s money in grade ‘B’ commodity. After the sale of each lot of commodity, we calculate the profit and distribute it.*

These findings affirm the claim of [Frankel \(2012\)](#) who stated that perpetrators offer a rate of return ranging from 20 percent to 100 percent per month. It also affirms the results of [Tsai \(2009\)](#) that only earlier investors are paid the rate of profit promised by the Ponzi Schemes. The results are also in line with the findings of [Lewis \(2012\)](#) that investors’ requests for withdrawal of the principal amount is met only in early stages of Ponzi schemes.

5 Conclusion

Modaraba scam emerged as a viable investment opportunity in Pakistan and prevailed in almost all major cities of the country and ultimately unraveled as a Ponzi scheme. It emerged from a leading religious institution of Karachi, led by some renowned religious scholars and spread swiftly in all parts of the country. The religious scholars, prayer leaders and preachers of each locality became the agents of the scheme, collected money from investors and channelled it to the founder of the scheme.

Overall the life of the scam was composed of three phases: the advent, the magnification and unmask. The operational strategy involved trustworthy agents collecting investors’ money by diffusing believable business ideas and offering a lucrative rate of return on investment. Keeping the agents’ profession in mind, people invested substantially in the scheme. In the early stages of the scam, profit was distributed to investors at the promised rate and time that

stimulated more and more investors. However, after a couple of periodic returns the profit discontinued, the agents escaped and the regulatory authorities declared the scheme as a scam.

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