



Analysis of International Monetary Fund and Islamic Financing in Nigeria: the Better Development Financing Options

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ABSTRACT

The motivation for this research is an appraisal of the Laws Relating to the International Monetary Fund and its Impact on the Economic Development of Nigeria as well as the possibilities of Islamic Financing as an alternative to the International Monetary Fund. The objectives of the research include to analyze the legal and institutional frameworks for International Monetary Fund and those for Islamic financing; examine the role of International Monetary Fund in the development of member countries; extrapolate Islamic Banking potentials for economic development of Nigeria; and, analyze the IMF, Nigeria economic development partnerships and Islamic Banking model for development. The research adopted a doctrinal method and consulted primary and secondary sources such as the Articles of Agreement of International Monetary Fund, Banks and Other Financial Institutions Act, Companies and Allied Matters Act; then, journals articles and books. The research found that the IMF lends money to nurture the economies of member countries within balance of payments problems instead of lending to fund member's growth/development infrastructure projects; The IMF expects the countries to pay back the loans with interest, and the countries must embark on structural adjustment policies monitored by the IMF. It was recommended that Nigeria shift from borrowing from IMF to Islamic financing because Islamic financing by its nature is non-interest financing thus making it more convenient for the economic conditions of Nigeria. The research is novel and combines discourse on IMF and Islamic financing for Nigerian economic development.

INTRODUCTION

Nigeria and Nigerians have strong desires for the growth of the economy in a manner that makes sense to the common man who goes to the market to purchase food and other necessities of life for the family. It can be argued that the government in the country has attempted to find a solution to Nigerian infrastructure deficit by seeking funding from international organizations such as the International Monetary Fund (IMF). IMF is concerned with members' foreign exchange deficit challenges. However, there is also the Islamic Financing policies which are based on interest-free development financing. Nigeria joined the IMF after her independence in order to benefit from the purposes for which the fund was established. The IMF aims at the macroeconomic policies of the country including public sector budgeting, management of interest rates, money, credit and exchange rates as well as financial sector policy with special attention on banks and other financial institutions.

The IMF works with Nigeria in surveillance, through monitoring of economic and financial developments in the country and offering policy advice; it provides lending when there are balance of payment difficulties and provides technical assistance, training where expertise is required. The article argues that at this stage of Nigerian development, it makes more economic sense to finance infrastructure with zero interest financing agencies than to change your economic policies and get finances which have not yielded the desired development infrastructure solution.

METHODOLOGY

The article adopted the doctrinal methodology in sourcing data from international law and national law on the subject. This method takes documented data analysis and arrives at results which places responsibilities on policies makers and government official to take actions in favour of Nigerian economic development through interest free financing.

LITERATURE REVIEW

Conceptualizing Islamic Banking/Financing

The position of Godlewski, et al in their work "Sukuk vs. Conventional Bonds: A Stock Market Perspective" is that there are basic and fundamental principles upon which Islamic banking are operated. They are: The idea of equity is commonly cited by academics to justify the ban on prearranged payments, or usury, in order to safeguard the less powerful party involved in a financial transaction. The Arabic word for "hump" or "elevation," *riba*, refers to a rise in riches unrelated to working or producing something. The prohibition of excessive uncertainty (*gharar*), which is exemplified by contract ambiguity or elusiveness of reward, is also grounded in the principle of equity. In order to reduce information asymmetry, transacting parties have a moral obligation to disclose information before entering into a contract; otherwise, the existence of *gharar* would render the agreement void. The principle of equity and wealth distribution is also the basis of a 2.5 percent levy on cash or in-kind wealth (*zakat*),

imposed by *Shari'ah* on all Muslims who meet specific minimum levels of income and wealth to assist the less fortunate and foster social solidarity.

The second is the Principle of participation: Even though *riba* is sometimes referred to as interest-free financing, this does not mean that capital should not be rewarded. Investment return must be obtained in tandem with risk-taking rather than with the passing of time, as per a fundamental *Shari'ah* decision that states that "reward (that is, profit) comes with risk taking." This ruling also serves as the foundation for the prohibition of usury. As a result, risk-taking validates return on capital, which is then established *ex post* using project productivity or asset performance to guarantee a connection between funding and actual operations. Islamic finance is based on the idea of participation, which guarantees that gains in wealth be the result of creative endeavors.

Last, is the Principle of ownership: Prior to transacting, assets must be owned, according to the laws "do not sell what you do not own" and "you cannot be disposed of a property except on the basis of right." As a result, Islamic finance has gained recognition as asset-based financing, strengthening the connection between the real economy and the financial sector. It also requires preservation and respect for property rights, as well as upholding contractual obligations by underscoring the sanctity of contracts.

The International Monetary Fund Assistance

The objectives of the International Monetary Fund (IMF) as set out in its article are to the effect that it exists to create some level of confidence in international transactions by the opportunity for balance of payments in a manner that engenders international and national prosperity for its members. The IMF looks to international trade in its volumes and is not specifically concerned with domestic growth in the economies of member's states. This is visible from article 1(i) of the IMF Charter. The fund may act outside its core mandate if it delves into development strategy for the development of member's economy. The assistance that the IMF offers is in relation to growth in trade and its surveillance of members' ability to repay what they have received from the Fund and not in terms of what the Fund would do to grow the domestic economy. At least, this growth in article IV was not defined anywhere in the

Charter to mean economic growth of members' domestic economic activities. The growth of members' economy is typically a matter of policies put in place in an individual state's finance development policy.

Article VIII of the amendment to the IMF Charter seems to have proposed that members are not to take certain action in respect of exchange rate and exchange rate control. The Fund may advise, like in the case of Nigeria, that the member devalues its currency as a means out of its economy woes, which has not yielded any development to Nigeria's economic growth. Then members are expected to cooperate in matter of foreign exchange and international trade which is not done in members' national or regional currency.

Nigerian Economic Development Vide IMF

The method of loan approvals to Nigeria from IMF and the secrecy with which such loans are spent leaves many in doubt whether Nigeria can gain economic development vide IMF funds. It is argued that Nigeria needs foreign loans but not in the condition and applications prescribed by IMF. Alternative funding from a more objective and interest free regime would be advocated. Furthermore, it is argued that Nigeria needs transparent administration and accountability on public loans for a better stance on development from such facilities.

Islamic Banking Regime

Islamic finance or banking is anchored on Islamic morals and ethics. It seeks to fund development while abiding by the rules of Sharia and Islamic law. Money as a medium of exchange is deemed to be collaborative so that those who work together can earn together. It discourages the exploitation of taking interest for money given to another person. This is also related to the doctrines of riba. A person or institution has to co-own and or co-invest for profit to be shared among them and not a situation where a person awaits another for interest because he lends money to him.

Legal Regime for Islamic Banking in Nigeria

The legal regime for Islamic banking in Nigeria follows its nature as a business concern and interest free undertaking. There operations in Nigeria is governed by Banks and Other Financial Institution Act (BOFIA) 2004; Central Bank of Nigeria (CBN) Act 2007; and, Companies and Allied Matters Act (CAMA) 2020. Guidelines for the Regulation and Supervision of Institutions Offering Non-Interest Financial Services in Nigeria; and, Guidelines on the Regulation and Supervision of Non-Interest (Islamic) Microfinance Banks in Nigeria. Two types of non-interest banks are to be distinguished: the National Non-Interest Bank, which will operate in all states of the Federation, including the Federal Capital Territory (FCT), and has a capital base of N10 billion. Regional non-interest bank operating in at least six states and up to twelve contiguous states of the federation, within the Federal Capital Territory and no more than two geopolitical zones, with a capital base of N5 billion. The extant Companies and Allied Matters Act A enjoins a non-interest financial institution to ensure that its Memorandum and Articles of Association expressly state that its business operations will be conducted in accordance with the principles and practices of Islamic commercial jurisprudence or other non-interest banking regimes

Nature of Islamic Finance or Banking

Islamic activities which are commercial in nature are to be production to make ends meet and even though some human activities are forbidden Islamic financing involves: profit-and-loss-sharing and, purchase and hire of goods or assets and services on a fixed-return base. A profit and-loss sharing partnership is the most authentic form of Islamic Financing. For those in agro allied businesses, there is provision in Islamic banking to accommodate huge funding for projects intended to impact more persons or a community. There is also the

model of Islamic banking where parties engage for profit-sharing or loss-bearing development arrangements; the bank provides the required funding while the other party may perform the managing and efforts exerted to carry out the undertaking. Method for profit sharing is mutually agreed between the parties. The entrepreneur and small businesses which are the hub for domestic growth will benefit and contribute to employment, trade and development of the national economy in a participatory manner. Public Private Partnership engages the private sector for infrastructure or development projects which the government may not have the time or finance to fully and solely carry out. Projects like housing and modular refinery can be part of what the government may involve Islamic finance to fix housing deficits and provide petroleum for domestic consumption in other to solve fuel or petroleum products scarcity once and for all.

RESEARCH RESULT

Comparison of IMF and Islamic Banking for Nigeria Economic Development

International Monetary Fund has interest in there transactions while Islamic banking keeps no interest towards a borrower rather views banking or financing of projects as collaborative activity. Developing nation like requires or needs more of interest free financing than financing which encourages lazy waste of resources on payment of interest over infrastructure funding. There is also the doctrine of certainty in Islamic banking financing as it does not involve in speculative investment but on assured undertakings IMF services balance of payment deficits and seeks to promote international trade. On the other hand, Islamic financing encourages collaboration and joint efforts in contract execution and risk sharing bearing losses together and developing jointly. It also discourages excessive consumption-led debt. While the present policies of IMF have encouraged consumption led debts and impoverished Nigeria rather than developing it. Islamic banking principles encourage participation of the lender in the business in other to share in profit; that is the bank must share in the risk and possible losses. While the IMF provides guidelines which borrowers should follow; at any event, the IMF would expect the money to be paid according to the terms and not share in any risk resulting from the debt.

Islamic banking is subject to Nigerian laws and regulations made by the appropriate authorities such as the CBN, Corporate Affairs and Securities and Exchange Commission. Islamic banking or finance is accessible to government, corporate and incorporating bodies, individuals and groups in Nigeria while the IMF is government or state lender and may not be accessible to small and medium scale businesses which are the main sustainers of economic development. Again, prudence driven by a life of devotion to religion drives the Islamic financing making it more resilient and adaptable to Nigerian peculiarities. The Islamic financing is run on the principles that clarity on investment is prime while risk sharing or transfer of risk is recognized as forming part of the basis for any investment, especially in infrastructure which has been argued to drive economic development in a country like Nigeria. Islamic

financing curbs excessive leverage, restricts spending to particular projects rather than on legislative or parliamentary approvals. It also restricts banks from investing in highly leveraged assets and short selling, suggesting that they are likely to foster financial stability and render the global financial system less prone to financial distress. The direct link between the financial and the real or trade sectors may also prevent technical speculation and potential bubbles. Further, increased monitoring by investment account holders may help impose market discipline on banks and maintain financial stability. Some also contend that Islamic banks are likely to function in a more prudent manner because withdrawal risk may be higher compared to conventional banks. Also, since Islamic banks do not engage in interest-based operations, their financing seems to be less affected by interest rate changes compared with conventional banks, but they are not entirely isolated from interest rate risk. Finally, while a downturn in the real economy will affect the profitability of Islamic banks, the ability of these banks to share this risk, at least partly, with depositors provides a cushion against a widespread crisis.

CONCLUSION AND RECOMMENDATION

International Monetary Fund does its best in balance of payment deficit assistance. It does function properly in advising countries on macroeconomic activities which could lead to economic growth. It does surveillance to protect trade and investment at the international level. However, the aims and objectives of the IMF do not practically offer a solution to Nigerian economic challenges. There is solid evidence that Islamic finance has become an integral part of the global financial system and that it has the potential for solving the problem of poverty and low economic growth through financial inclusion, especially in poor income countries.

The recommendations are that Nigeria shift from borrowing from IMF to Islamic financing because Islamic financing by its nature is non-interest financing thus making it more convenient for the economic conditions of Nigeria.

ADVANCED RESEARCH

In writing this article the researcher realizes that there are still many shortcomings in terms of language, writing, and form of presentation considering the limited knowledge and abilities of the researchers themselves. Therefore, for the perfection of the article, the researcher expects constructive criticism and suggestions from various parties.

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