INTERNATIONAL MONETARY FUND (IMF) AND ISLAMIC FINANCE

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Abstract

International Monetary fund is widely known for its financial support and stability programs toward week and unstable economies around the world. It was not until 21st century when Islamic modes of financing became an official part of IMF's finance market after successfully generating record breaking revenues in Muslim countries like Malaysia and Saudi Arabia. The most important aspect of Islamic finance was Sukuk. In fact, it was the reason Islamic finance became a part of IMF. But the current working of IMF around the world and Islamic mode of financing don't go side by side. The reason for this is interest based policies of IMF and increased risk factor for borrower countries. Moreover, IMF exploits week economies using funds obtained by strong countries and as a result, poor becomes poorer and rich becomes richer. It is the IMF who took out the values of the most important financial entities from Muslim countries; Oil and Gold. It can be said that as a result of IMF and its success, Muslim countries suffered the most and are still suffering. Pakistan is the living example of this suffering. The amount of debt payable by Pakistan is insane and send shivers down the spine. So it can be concluded that IMF started for a noble cause to support economies suffering from great depression and WWII but it has become a Mafia who cares only about gaining more power and hold over poor economies.

Key words: *Economies, IMF, money, finances, banks, stability, Muslims, poor, debt, rich, power.*

INTRODUCTION

The IMF is best recognized as a financial organization that provides money to its members who are having temporary balance of payments issues in exchange for them implementing economic adjustment measures to resolve the issues. This international organization incorporated Islamic finance as its part recently after huge revenues generated by Sukuk. Before discussing Islamic Finance and IMF in detail, let's have a look at a brief introduction of International Monetary Fund.

"International Monetary Fund (IMF), United Nations (UN)specialized agency, founded at the Bretton Woods Conference in 1944 to secure international monetary cooperation, to stabilize currency exchange rates, and to expand internationalliquidity (access to hard currencies)"[1]

IMF funding has significantly expanded recently as a result of the organization's essential involvement in resolving a number of economic and financial crises in developing nations in Asia, Latin America, and Europe. The IMF actively supports attempts to stabilize economies, execute structural reforms, and attain sustainable external debt positions by offering finance on favorable terms to support its weaker countries' efforts to build their economies and reduce poverty. The larger context in which this financing takes place, however, is frequently absent from the public's impression of the IMF.

The IMF is unique among intergovernmental organizations in its combination of regulatory, consultative, and financial functions, which derive from the purposes for which the institution was established.

There are currently 190 countries in the world that are members of the International Monetary Fund, a cooperative international monetary institution. As a component of the Bretton Woods conference, which was held in the aftermath of World War II, it was established in 1944 together with the World Bank. The IMF is responsible for the creation and maintenance of the international monetary system, the system by which international payments among countries take place. It provides a systematic mechanism for foreign exchange transactions in order to foster investment and promote balanced global economic trade [2].

To accomplish these objectives, the IMF works on and provides advice on a nation's macroeconomic decisions, which have an impact on that nation's exchange rate, governmental budget, management of money, and credit. The financial sector and regulatory policies of a nationwill also be evaluated by the IMF, as well as macroeconomic structural policies that affect job opportunities and employment. Additionally, as a fund, it could provide money to countries that needed it to balance their budgets. The IMF is tasked with promoting economic expansion and preserving high employment rates across nations.

History of IMF; Why was it established?

The International Monetary Fund was established at the end of World War II with the goals of overseeing the global financial system, managing a system of fixed exchange rates, assisting countries with their short-term balance of payments, and avoiding a repeat of the autarkic policies of the 1920s and 1930s. In the 1970s, when the fixed-rate regime was abolished, the Fund was considered as the supplier of new international public goods. Thus, as the world became more unstable during the era of globalization with its floating exchange rates and rising flows of international trade and private capital, it evolved into the manager of global financial crises.

Following are some of the main reasons of IMF’s formation:

- . **The Great Depression**

The Great Depression was the worst economic downturn in the history of the industrialized world.It had a significant impact on the IMF's initial structure. Due to local policy mistakes and the collapse of foreign trade, output and prices fell globally during the Depression, amplifying the negative effects of Versailles. It put to the test voters' and analysts' faith in the efficiency of free markets and enhanced belief in the public sector's activist role in the economy. Thus, it was simplerand more natural to begin discussions on a postwar framework with the premise that a substantive intergovernmental agency would be helpful and even necessary for the international financial system.

The day known as Black Thursday launched the stock market crash of 1929, which started the Great Depression [3].

Effects of Great Depression:

- As the world's trade decreased the economic crisis spread from the United States to the restof the world.
- All around the world, living standards suddenly dropped.
- As the demand for goods and services declined, many businesses were forced to close, which raised the unemployment rate.
- The gross domestic product (GDP), industrial production, and unemployment all increased to surprising levels.

The combined effects of Versailles (the absence of a stabilizing system in international finance) and the Depression were an important influence on the IMF’s mandate as adopted at Bretton Woods in 1944 [4].

- **World War 2**

The Second World War had a significant historical impact on the IMF because it gave the international system reform movement both direction and context. Harry White was given responsibility for international economic and financial policy after the United States entered the war in reaction to the attack on Pearl Harbor in December 1941. Treasury Secretary Henry Morgenthau Jr. also ordered White to develop a strategy for reconstructing the system once the war ended. Luckily, White had already outlined a basic framework for an international stabilizationfund, and he was able to complete a first draught within a few months. Keynes was creating a scheme for an international clearing union on the other side of the Atlantic.

The importance of Bretton Woods as a wartime event was that it took advantage of a window of opportunity to create a multilateral financial system. Both before and after the war, the levels of suspicion and national self-interest were too great for such a sweeping agreement to be possible. Even in 1945, when the U.S. Congress and the U.K. Parliament were to ratify the Articles of Agreement, passage was far from easy (Gardner, 1980). Again, White invoked the specter of Versailles. Asked in a House of Representatives hearing what would happen if Congress refused to ratify the agreement, White replied, “I think history will look back and indict those who fail tovote the approval of the Bretton Woods proposals in the same way that we now look back and indict certain groups in 1921 who prevented our adherence to an international organization designed for the purpose of preventing wars.”[5]

The war also had a significant impact on the IMF since it effectively placed the United States in charge of the global economy. Keynes had limited options because Britain was so reliant on American generosity in his attempts to reshape the postwar system in favor of his nation. The Soviet Union and France, the other two major allies, were both intellectually and politically isolated. As a result, rather than using a worldwide currency it created, the IMF's financial structure would be based on the U.S. dollar. The Fund wouldn't have most of the authority of a central bank, and its lending authority would be constrained in both size and scope. Its corporate headquarters wouldn't be in London

International Monetary Fund and Islamic Finance

Over the past few decades, the term Islamic finance has grown rapidly, making its important and crucial place in international financial markets. Muslim countries have presented Islamic finance at international platforms in a very appealing manner. Moreover, revenues generated by Islamic finances over the past decades are astonishing and makes a bold ratio of total assets withheld by World Bank and International Monetary Fund. Before diving deep into the roots of connection between IMF and Islamic finance, let’s have a basic understanding of this term.

Islamic Finance

Islamic economics/finance is the knowledge and application of injunctions and rules of the Shariah (Islamic law) that prevent injustice in the acquisition and disposal of material resources in order to provide satisfaction to human beings and enable them to perform their obligations to Allah and the society [6]

As it is mentioned above, Islamic financial practices are bound to follow instructions given by Shariah (Islamic Law). Economic being a crucial and significant part of every society be it Islamicor non-Islamic makes it very diverse and miscellaneous. Islam has also given this aspect of societya great importance.

Allah Almighty says in Holy Quran:

وَٱبْتَغِ فِيمَآ ءَاتَىٰكَ ٱللَّهُ ٱلدَّارَ ٱلْـَٔاخِرَةَ ۖ وَلَا تَنسَ نَصِيبَكَ مِنَ ٱلدُّنْيَا ۖ وَأَحْسِن كَمَآ
سَنَ ٱللَّهُ إِلَيْكَ ۖ وَلَا تَبْغِ ٱلْفَسَادَ فِى ٱلْأَرْضِ ۖ إِنَّ ٱللَّهَ لَا يُحِبُّ ٱلْمُفْسِدِينَ

“Seek by means of the wealth that Allah has granted you the Abode of the Hereafter but forget not your share in this world and do goodas Allah has been good to you and do not striveto create mischief in the land, for Allah loves not those who create mischief".

This verse of Holy Quran clearly states that Islam does not allow any sort of misconduct or mishandling while dealing with worldly entities. It includes laws of acquiring, utilizing and distributing wealth. Islamic laws are made to make sure this type of mishandling is prevented because Islam believes that acquisition or distribution of wealth using wrong means result in circulation of resources in a few hands which can directly lead to monopoly. On the contrary, an equally balanced economic system should prevail among societies keeping in view Islamic Laws in order to thrive.

Unfortunately, even after so many warnings and cautions about economic dealings in Holy Quranand from the life of Holy Prophet (PBUH), Muslim world has reached a rogue and crippling state in economic terms. Islamic values and economic structures given to us by Holy Prophet (PBUH) have been forgotten.

Holy Prophet (PBUH) had foreseen this era when He (PBUH) said that:

يَأْتِي عَلَى النَّاسِ زَمَانٌ، لاَ يُبَالِي الْمَرْءُ مَا أَخَذَ مِنْهُ أَمِنَ الْحَلاَلِ أَمْ مِنَ الْحَرَامِ [8]

"A time will come when one will not care howone gains one's money, legally or illegally".

Now the modern civilizations are desperate about earning bucks by legal or illegal means without paying any heads to deceitful and horrible circumstances of such mishandlings. Such desperate times in which economies around the world have been collapsing suffering the spoils of World Wars, IMF became a dominant financial market which claims to aim a stable international financial market as mentioned earlier in this study, it has introduced Islamic financial marketing means to its official finance patterns after the successful revenue generation by Islamic financial methods over the decade. Let's have a look at brief history of these two and how far they have come till date.

History of Islamic Finance and International Monetary Funds (IMF)

Over the past few years, financial growth of IMF and World Bank saw a rapid hike because of Islamic financial methods in international markets. A very brief past of IMF and Islamic Finance turned out to be very successful for both international trade and Islamic financial tools around theworld. IMF has tried to fully unlock the potential that Islamic finance hold while maintaining the stability of international financial markets. But it was even before IMF's interest in Islamic financial tools that it gained popularity around the globe. Since then, it is notching up a double digit annual growth rates. It is not only gaining grounds in Muslim countries but also setting its bars high in non-Muslim world as well.

One particular tool of Islamic finance which eventually led to its success in global market and has been in limelight for a long time now is Islamic bond or Sukuk. Before discussing Sukuk and its International success value, let's have a look at brief history of IMF and Islamic finance.

In its modern form, Islamic banking started with pioneering experiments in the early 1960s in Egypt. The Mit-Ghamr Islamic Saving Associations (MGISA) mobilized the savings of Muslim investors, providing them with returns that did not transgress the laws of the Shari'ah. The MGISA attracted a flurry of deposits, which grew at the rate of more than 100 percent per year in the first three years of operations. Later, the Pilgrims Fund Corporation (PFC) enabled Malaysian Muslimsto save gradually and invest in Shari'ah-compliant instruments, with the purpose of supporting their expenditures during the Hajj period (pilgrimage). In 2012, the PFC had eight million accountholders and deposits of more than $12 billion. Formally, Islamic banking started in the late 1970s with a handful of institutions and negligible amounts, but it has increasingly grown over the past two decades, with total assets reaching about $2 trillion at end-2014 [9]

Significance of Islamic finance includes the fact that it started from some of the world's successful

Muslim economies such as Saudi Arabia and Malaysia. It succeeded just in few decades and became an integral part of IMF's international finance programs.

Rapid growth of Revenues generated by Islamic finance

Islamic finance assets grew at double digit rates during the past decade from about 200 billion US Dollars in 2003 to an estimated 1.8 trillion USD at the end of 2013. However, despite its growing speed, Islamic finance assets are still in concentrated in Gulf Cooperation Countries (GCC). Islamic banking outperformed conventional banking over the past decade, increasing its penetration rate above 15 percent in a dozen countries in the Middle East and Asia. Over the same period, Sukuk issuance increased twenty fold to reach 120 billion US dollars in 2013 and its issuerbase is broadening with new issuances in Africa, East Asia and Europe [10].

It can be seen that both Muslim and non-Muslim communities, Western or European communitiesare tapping their interests in Sukuk market which is an integral part of Islamic Finance. Each country has its own reasons for tapping in to the sukuk market but the increasing proliferation of Sukuk while a bone to Islamic finance also presents a set of challenges that the global market regulators will have to grapple with. Reasons behind an increased interest in this particular entity of Islamic finance will be discussed in the following pages. Measures to utilize these assets backed characteristics of this instrument in infrastructure investments will also be thrown upon some light.

Sukuk and its Growing Influence in IMF

Sukuk is an Islamic form of conventional bonds which are backed up by assets. Sukuk markets have generated a great deal of influence in western financial markets and now after its successful start, it has become a part of IMF's international financial stability program.

A sukuk is an Islamic financial certificate, similar to a bond in Western finance, that complies with Islamic religious law commonly known as Sharia. Since the traditional Western interest- paying bond structure is not permissible, the issuer of a sukuk essentially sells an investor group acertificate, and then uses the proceeds to purchase an asset that the investor group has direct partial ownership interest in. The issuer must also make a contractual promise to buy back the bond at a future date at par value [11].

Since Islam prohibits interest charging or what we usually call Riba in Shariah terminology, therefore, traditionally used western mediums are not practicable to raise funds for any business.

Sukuk however, smoothly links return and cash flow of debt financing, utilizing this entity to its fullest. This allows even non-Muslim investors to work in a Shariah compliant environment.

Sukuk constitute valuable instruments of Islamic financial systems for at least three reasons. First, they allow channeling resources to finance adequate economic projects. Then, they allow matching assets (long-term investments) and liabilities (long-term loans) of Islamic financial institutions. Second, they represent an opportunity for small investors to get involved in Islamic finance and make profits. In this way, they allow for a wide transfer of wealth in the society rather than concentrating it in the hands of a few wealthy individuals or groups in the society. With the further development of secondary market, sukuk can help Islamic financial institutions manage liquidity problems [12].

As it was mentioned earlier that Islamic Finance brought some challenges along, these challenges are directly proportional to Muslim World specially under developed states like Pakistan which shares a deep history with IMF. Before digging deep into these challenges, let's have a look at the history of Pakistan with IMF and how it designed Pakistan's economic future being an Islamic state.

International Monetary Fund and Pakistan

The International Monetary Fund (IMF) has recognized Pakistan as a member since 1950.Pakistan has received loans from the IMF on 22 occasions, with the most recent being in 2023. This is due to

Pakistan's economy's unpredictability and reliance on imports. On July 11, 1950, Pakistan became a member of the IMF as the newly formed nation struggled with its finances following its separation from British India in 1947.

IMF has lent money to Pakistan 21 times during the last 60 years, which currently needs about $28 billion for the current fiscal year to meet its financial needs. The second time Pakistan had reached out to the IMF for financial assistance was on March 16, 1965, when US$ 37,500 were dished out by this 72-year-old international organization headquartered in Washington DC. On October17, 1968, Pakistan had received US$ 75,000 from the 189-member IMF, on May 18, 1972, Pakistan had drawn a loan of US$84,000, another $ 75,000 on August 11, 1973, $75,000 more on November 11, 1974, a Standby Arrangement of $ 80,000 was given on Mar 09, 1977, an Extended Fund Facility of $349,000 had reached Islamabad on November 24, 1980, some $730,000 had flown in on December 02, 1981, $194,480 were drawn from IMF accounts on December 28, 1988, another

$382,410 came in shape of Structural Adjustment Facility Commitment on December 28, 1988, a Standby Arrangement of $88,000 had landed in Pakistani coffers on September 16, 1993, an amount of $123,200 had landed on February 22, 1994 under the head of an Extended Fund Facility,
$172,200 were again borrowed by Pakistan on February 22, 1994, an amount of $294,690 had followed on December 13, 1995, two amounts of $ 265,370 and $113,740 had reached Pakistan on October 20, 1997, $465,000 was drawn on November 29, 2000, an amount of $861,420 had come on December 06, 2001, the largest-ever IMF Standby Arrangement of $7,235,900 was agreed between the debtor and creditor, but an amount of $4,936,035 had actually flown in on November 24, 2008 and then an Extended Fund Facility to the tune of $4,320,000 had rescued Pakistan on September 04, 2013 [13]

Yousaf Raza Gillani, The Executive Board of the International Monetary Fund (IMF) today approved a 23-month Stand-By Arrangement for Pakistan in an amount equivalent to SDR 5.169 billion (about US$7.6 billion) to support the country's economic stabilization program [14].

The IMF provided a loan based on requirements such raising energy prices, eliminating energy subsidies, raising taxes, privatizing public entities, and adopting fiscal measures that balance the budget.

The Impacts of IMF Demands on Pakistan's Real Estate Market

There are a number of issues that Pakistan's real estate industry is dealing with, which are worrying investors and property owners. Instability in the market is exacerbated by recent calls for extra levies from the International Monetary Fund (IMF), high costs for food and raw materials, high lending rates, and a lack of investment in building projects. In-depth discussion of these elements and how they affect Pakistan's real estate is given below.

IMF Requests New Taxes Recently

The IMF urged that Pakistan's government enact higher taxes in order to strengthen the nation's finances. Businesses and consumers now face higher prices, which makes it more challenging for them to make real estate investments. New taxes may also make it harder for the average person to afford a home, which could further reduce demand for real estate.

High cost of food and raw materials

In Pakistan, the cost of food and raw materials has also increased, making it more expensive for developers to build new homes. Thus, it becomes more challenging for them to profitably sell these properties. Due to the slowdown in construction, there are now fewer new homes available on the market. Property prices may drop as a result of this loss in supply and the subsequent declinein buyer demand.

High Rate of Interest:

A High Rate of Interest the cost of obtaining loans in Pakistan to acquire homes is increased by the country's high interest rates. As fewer people can afford the higher monthly loan payments, this in turn lowers demand for properties. High interest rates can also make it harder for real estate developers to secure financing for their ventures, which may lead to a decline in the volume of building.

Insufficient funding for construction projects

The construction sector in Pakistan has slowed down as a result of a lack of investment in new projects. As a result, there are now fewer new homes available on the market, which makes it more challenging for purchasers to find a home that meets their needs. The local economy may suffer as a result of the decreased demand for construction workers and related services as a result of this slowdown in construction activity.

Poverty Reduction and Social Protection

The authorities have progressed with measures to reduce poverty and improve social protection. In FY22, BISP spending increased to PRs 235 billion—exceeding FY21 execution by 21 percent but still falling 6 percent short of the FY22 budget envelope, thus missing the related End-June 2022 IT. This under-execution reflects lower-than-projected COVID-related Ehsaas Emergency Cash (EEC) transfer spending and a slower-than-envisaged horizontal expansion of the unconditional cash transfer (UCT) Kafalat program (by 0.7 million families instead of 1 million families to now 7.7 million families) due to a temporary slowdown in enrollment efforts amid a reassessment of social spending priorities [15.]

Is Pakistan on the way to living without the IMF?

The government's decision to oppose the IMF, in the opinion of pro-people economists, was the right one. They contend that none of the previous IMF programs have been successful, or Pakistan's economy would be doing better right now. Most of the IMF's proposed initiatives during the most recent meetings were not in the interests of the Pakistani people.

A number of studies, carried out by Pakistani economists confirm that during the 1988-1999 structural adjustment period, the levels of inequality and poverty increased. The decade 1992-2002 witnessed a decrease of per capita income and per capita GDP, worsening the gap between the rich and the poor. Similarly, the data between 1981-2001 confirms many of the above-mentioned observations. This includes the increase of the unemployment rate from an average of 3.5 % in the 1980s to 5.7% in the 1990s and to 6.7% in 2000-01 due to the bitter structural adjustment pills of the IMF. The strict austerity measures demanded this time by the IMF are bound to devastate the living conditions of working people and the poor. Tough fiscal measures such as imposition of more and higher taxes, withdrawal of tax exemptions, increases in energy tariffs, elimination of energy tariff subsidies and privatization of public sector enterprises would strongly hurt the poverty-stricken people of Pakistan, who would have to brace themselves for greater hardship in the coming years. In a nutshell, any new engagement with the IMF will have negative implications for the people of Pakistan. Pakistan's external debt may jump to $103.4 billion by the end of current financial year, pushing it close to 70% of GDP by 2023 [16.]

In addition, it is necessary to establish an impartial parliamentary debt audit commission to look into how loans were utilized, assess whether Pakistanis benefited, and make sure that any future loans are used properly.

Pakistan is still waiting for an IMF bailout:

A crucial agreement between Pakistan and the International Monetary Fund (IMF) has still not been finalized. The country's central bank has stated that it only has enough foreign exchange reserves to cover imports for the next four weeks, despite the IMF's assertion that the debt is still manageable.

Pakistan Federal Minister of Finance Ishaq Dar tweeted Friday that the United Arab Emirates has confirmed to the IMF $1 billion in financial support to Pakistan, and the state bank is collecting the documentation needed to take the deposit from UAE authorities [17].

22 loans in 61 years, Pakistan's unwavering habit of going to the IMF:
Pakistan has borrowed around SDR 13.79 billion from the IMF, out of which 47% of the loans were secured by PPP, followed by PML-N at 35%, while the military dictatorships lag behind witha mere 18%. Umar clarified that the bailout package has been agreed upon in writing and they have an agreement on all policy matters, including exchange rate, fiscal deficit, energy, public finance and public sector entities. He also mentioned that Pakistan's financing gap is around $15 billion, that $7-8 billion from the World Bank and $6-8 billion from the IMF and the Asian Development Bank (ADB) will be available, while the process for launching international bonds has already been started [18].

It appears that the new agreement with the IMF will be carried out according to schedule and under the terms and conditions that were set forth under Umar. We will have completed our 22nd IMF loan in 61 years once everything happens as planned.

Pakistan Inflation Rate:
Due to Covid, unemployment in Pakistan has increased greatly, due to which the country has become economically depressed, the country has become bankrupt.
As their economies work to recover from the COVID-19 pandemic's economic effects, international credit agencies have warned that a number of nations, including Pakistan, may be atrisk of default this year.

Backlash received by IMF; How Their Policies Are Making Countries Bankrupt.
Since the beginning in 1945, IMF has been working hard to stabilize the economies of countries. But almost after 70 years, it can be seen that the actual moto of this organization has become a lost cause. Because the already depreciating economies are becoming bankrupt even after taking bailouts from world's biggest financial market. Living example is Pakistan. The interest rate which is the backbone of IMF is rupturing backbones of 3rd world economies. Moreover, the money this institution uses to provide interest based debts is coming directly from 1st World (greatest economies to exist in the World).

IMF conditionalities have also been widely debated. Critics contend that IMF policy prescriptions provide uniform remedies that are not adequately tailored to each country's unique circumstances. These standard, austere loan conditions reduce economic growth and deepen and prolong financial crises, creating severe hardships for the poorest people in borrowing countries and strengthening local opposition to the IMF [19].

Final Verdict on the Policies of IMF in light of Islamic Finance
As it is mentioned earlier that IMF's basic purpose was to establish an institute for funds stabilizingand economic development backed up by strong assets of states. But the purpose of IMF is completely vanishing now with such high levels of interest rates and demands. In 21st century, it would not be a lie to call it a Mafia backed up by rich economies of 1st World who's only purposeis to exploit the lower economies.

The irony is that the bleak condition that was briefly described above is no longer only present in the poorest or least developed nations in Africa, Asia, and other parts of the world. Inequity has emerged as humanity's most pressing issue and its defining characteristic in all communities. The same fate awaits large populations in practically all growing and developing, Islamic and non-Islamic, as well as developed and industrialised economies. One of the biggest obstacles to attaining distributive justice is the interest-based banking system. It produces unpayable debt, making a class of peoplericher and leaving others poorer and oppressed. The salient characteristics of the interest-based mechanism are excessive debt and its servicing; debt from yesterday can be repaid by taking out debt from today. It is hindering not only economic expansion but also the work of the World Bank, IMF, and other donors to end poverty in developing nations. Additionally, it corrupts the payment systems, which makes the concern for just and equitable incomes and earnings the least taken into account. Nobody is concerned about the future generations and sources of the debt repayment. Any divine religion forbids this sort of conduct, avoiding paying off debt that is currently due. Debt obligations are strictly monitored under Islamic Shariah on the day of judgement.

Therefore, it is abundantly evident to the public what Islam and Islamic financial practices are.

Even today, economists in the West are in agreement with the practices established by Islamic finance and Shariah law. These rules, which are based on divine order, enable economies of all world orders to develop, demonstrating that raising the economies of the poorer nations is necessary for the human race to cross economic thresholds.

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