Islamic Finance in New Zealand, Reasons and Approaches

Dr. Zainab Radhi

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INTRODUCTION

Islam is more than just a religion of worship. It offers society a complete political, economic and social system. The Islamic economic system is as valid as any other system and should be assessed on the basis of the degree to which it can improve existing systems and approaches toward economic development of individuals as well as states. Therefore, any approach that helps to alleviate poverty and improve the people's lives is good, regardless of whether the source of those rules is Islam or some other divine or manmade system. In a multicultural world, we should be cosmopolitan rather than parochial in the inspirations for our rules.

Islamic Economic System (IES) and Islamic Financial System (IFS) are systems which provide strategies, approaches and tools that comply with Islamic Law (*Shari'ah)*. They have many features that do not exist in the conventional economic and financial systems. These features bring number of benefits to the economy and the community where they are applied. The wide variety of Islamic financing tools (IFT) offer different mechanism which are capable of meeting people's different financial needs.
This article proposes the application of the IFT in New Zealand as an additional option to the available tools.

IFT application will be an implementation of the Financial Inclusion as defined by the World Bank " *Financial inclusion means that individuals and businesses have access to useful and affordable financial products and services that meet their needs – transactions, payments, savings, credit and insurance – delivered in a responsible and sustainable way."(https://www.worldbank.org/en/topic/financialinclusion/overview).* This statement by the World Bank reflects the growing importance of the role of governments in creating access to different useful, affordable and sustainable financial and banking products and services. Therefore, governments, including New Zealand government, should support the availability and accessibility to various financial tools, and then leave it to the people to select the one they prefer.

The first part of this article provides a brief overview of some of the main features of IES, IFS and IFT.

This part illustrate how these systems are capable of delivering more justice towards the individuals and the society in the financial sector. Therefore, this section discusses part of the reasons for the need of the application of the IES, IFS and IFT in New Zealand.

The second part provides a general overview of the global status of Islamic finance around the world. It also shows how much behind is New Zealand in not only offering but also utilizing IF.
The last part discusses some of the approaches that can be followed in introducing IFS and IFT in New Zealand, some of the major challenges and offer some thoughts on how to mitigate those challenges.

FEATURES OF IES

Economic freedom; IES protect economic freedom of individuals and the market. However, this freedom has to be balanced with restrictions to protect other people's rights. This balance is sought through prohibitions on usury, cheating, bribery, betrayal, stealing, monopolization and other actions that trespass on other people's rights as well as any kind of discrimination (e.g., discrimination based on gender, race, age, religion).[1] Another important feature is the combating of the hoarding of money. In order for any economy to grow, there is always a need for further investment and of course investment cannot be carried out if people hoard their money. Encouragement of earning a living by working, economic independence is an important prerequisite for real development. Individuals who earn their own living become economically independent, no longer reliant on external assistance such as assistance provided by the government. Other important features are Fair redistribution of wealth, brotherhood and equality, prohibition of monopolies and oligopolies, fair remuneration of labour, implementing rules of fair business and being patience with people with hardship.

FEATURES OF IFS

The first and most important feature of IFS is the prohibition of interest, I will talk about this feature in more details later in the article. Second, Islamic transactions that are sale-based or lease-based are required to have an underlying asset. Third, the avoidance of uncertainty and speculations (*Gharar),* of the reasons for the avoidance of uncertainty is that the parties will not have certain obligations under the contract. Fourth, the prohibition of trading or investing in products which are considered inconsistent with the *Shari'ah* and are considered unethical, these activities includes alcohol, gambling, tobacco, weapon, pork products food, pornography and non-halal food. Fifth, Islamic financial system emphasis on the concept risk sharing, ie profit and loss sharing. The lender and borrower share the profits and losses of the

1 Siti Mariam Malinumbay, *The Concept of Land Ownership: Islamic Perspective,* 2 BULETIN GEOINFORMASI 285, 289 (1998).

investment which is different from the risk-shifting concept of the conventional banking system. In addition to providing more protection for lenders, 'profit and risk sharing' also promotes good investments because both parties need to ensure they are putting their resources in the right place. Finally and because of the risk sharing concept, Islamic banking offers additional tools of risk management to be used alongside with the conversional banks risk management tools which results in more robust investments.

Prohibition of Interest under the IFS

Due to the importance of this feature it is important to understand the reasons for the prohibitions of Usury (*Riba*) before proposing alternatives or additional financing tools which are based on the concept of the prohibition if interests into New Zealand financial market. To provide a very simple definition of interest; interest arises from an exchange of two matching commodities (gold with gold) or two similar commodities (gold with silver). Profit results from an exchange of two different commodities (gold with steel). The former is usury and is prohibited in Islam, while the other is not.[2]

Religious Arguments for the Prohibition of Interest

Interest or usury is prohibited in most religions. It is prohibited in Hinduism, Buddhism, Judaism, Christianity and Islam. *Riba* has been prohibited even before it was prohibited by Islam around 1400 years ago. *Riba* is known today as 'interest', but has been known historically as 'usury'.[3] In *Islam* there are 12 verses in the Quran dealing with *Riba*. Judaism and Christianity prohibited usury in several places as its prohibition has its roots in several biblical passages in which the taking of interest is forbidden, discouraged or scorned.[4]

Economic Arguments for the Prohibition of Interest

Adam Smith, despite his reputation as the 'father of free-market capitalism' supported the idea of controlling usury. Adam Smith, despite his reputation as the 'father of free-market capitalism' due to his

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2 *See* MOHAMMED SIDDIQI, ISLAMIC RESEARCH AND TRAINING INST., ISLAMIC DEV. BANK RIBA, BANK INTEREST AND THE RATIONALE OF ITS PROHIBITION 36(2004), *available at* http://www.globalwebpost.com/farooqm/study_res/i_econ_fin/nejatullahs_riba.pdf (last visited June 29, 2012).

3 *See* Wayne Visser & Alastair McIntosh, *A Short Review of the Historical Critique of Usury,* 8 ACCOUNTING, BUS. & FIN. HIST.175 (1998). This article provides a useful review of the historical critique of usury.

4 "If you lend money to one of my people among you who is needy, do not treat it like a business deal; charge no interest." "If any of your fellow Israelites become poor and are unable to support themselves among you, help them as you would a foreigner and stranger, so they can continue to live among you. Do not take interest or any profit from them, but fear your God, so that they may continue to live among you. You must not lend them money at interest or sell them food at a profit." "Do not charge a fellow Israelite interest, whether on money or food or anything else that may earn interest. You may charge a foreigner interest, but not a fellow Israelite, so that the LORD your God may bless you in everything you put your hand to in the land you are entering to possess" (Deuteronomy 23 19-21).

advocacy of *laissez-fair* economics, supported the idea of controlling usury. Smith was in favor of the imposition of an interest-rate ceiling. This, Smith though would ensure that low-risk borrowers who were likely to undertake socially beneficial investments were not deprived of funds as a result of the greater part of the money which was to be lent to prodigals and projectors, who alone would be willing to give high interest rate. Also, the great twentieth century economist John Maynard Keynes held a similar position. Keynes believed that there should be rules and regulations to control the interest rate in the economy.[5]

Finally, another modern school of interest critics have their roots in the complementary work of several socio-economic reformists of the early twentieth century, namely Douglas (1924), Fisher (1933), Simon (1948) and Soddy (1926). "Their chief common premise was that it is completely wrong and unacceptable for commercial banks to hold a monopoly on the money or credit creation process. For banks then to charge interest (including to government) on money which they had in the first place created out of nothing, having suffered no opportunity cost or sacrifice, amount to nothing less than immoral and fraudulent practice."[6]

Ethical Arguments for the Prohibition of Interest

Islamic financial models perceive ethics as an integral aspect of all Islamic financial transactions and operations. First, interest creates an unfair distribution of wealth. This is especially so when we consider that interest is paid regardless of any profit created by the borrower. Second, interest charging is a way of exploiting someone who is vulnerable as they may desperately need money and are in a weak bargaining position. This exploitative aspect of interest creates negative feelings in society, especially between the rich lenders and the less fortunate borrowers. Third, interest is based on one party, the lender, being at an advantage all the time regardless of any loss incurred by the borrower. This discrimination between the more and less economically powerful creates even more injustice in society. Fourth, the effortless profit gained by lenders creates a case of unjust enrichment on their side.[7] Fifth, because interest is unearned and effortless, it is accompanied by no production of goods or services. Therefore, money becomes an end and not a means for other achievements. Turning money into a goal fosters materialism and makes

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5 *See* Wayne Visser & Alastair McIntosh, *A Short Review of the Historical Critique of Usury*, 8 ACCOUNTING, BUS. & FIN. HIST.175 (1998). This article provides a useful review of the historical critique of usury.
at 80.

6 *Id*.

7 RAJ BHALA, UNDERSTANDING ISLAMIC LAW 434 (LEXISNEXIS 2011), AT 694.

people move away from the more valuable things in life like personal ambition, morals, and caring for other people.[8]

Negative Economic Impacts of Interest

Riba-based-financing leads to the amount of financing in a society greatly exceeding the size of real market transactions.[9] [10] which is one of the reasons that led to latest global economic crises. Second, interest discourages people from borrowing money to spend or invest for two reasons: First, people do not find it appealing to pay back more than what they have borrowed and second, keeping money in the bank is a more secure and effortless source of income than investment. Two major negative consequences result from this discouragement of spending money. First, when people do not spend money producers cannot sell their goods and services. As a result, they lay off their employees causing more unemployment and second, people enjoy easy money and therefore they will be less motivated to work. Those outcomes create damaging long-term impacts on society.

Third, interest rates are controlled by central banks and, by raising or lowering interest rates, these banks influence the inflation and unemployment rates in the market. This restricts market freedom, creating unbalanced and distorted results in the economy.[11] Fourth, interest creates mixed negative economic and political impacts as embodied in the problem of power. Since money is brought into circulation by private financial institutions, not by governments, those private financial institutions control how much money gets in and out of the market. As a result, the private financial institutions, which are controlled by few people, can create booms and bust in the economy.[12] When private financial institutions control the interest rates or interest in general, this gives the banks significant power. However, since the presidents of banks are not elected in a democratic manner, this results in a shift in power from the elected people to the non-elected people, which hampers the democracy of the country.[13]

[8] *See generally* Visser & McIntosh, *supra* note 5.

[9] *Objectives of Shari'ah in the Prohibition of Riba: Implications from Modern Islamic Finance*, ONISLAM http://www.onislam.net/english/shariah/3380/432804.html.

[10] This point is fundamental to a number of current global economic problems. When someone goes to the bank to borrow money for the purpose of, for example, purchasing property, the bank does not give this person cash. Instead, the bank adds money to his account by changing the figures only. The lender will then pay back his loan with interest to the bank, so the bank has created more money that will be added to the market. This money creation mechanism adds money to the market without the production of value because the money was created only by time and not by real production. As a result, the amount of money increases but actual production does not. What are the results of this? The creation of money causes inflation. The term 'inflation' originally referred to an increase in the amount of money in circulation. The modern usage of the term refers to a rise in the price level. Economists generally agree, however, that in the long run, inflation is caused by increases in the money supply. *See* John Taylor, *How Government Created the Financial Crisis,* 2009 THE WALL STREET JOURNAL, Feb. 9, 2013 *available at* http://www.wsj.com/news/articles/SB123414310280561945.

[12] *See* David Icke, *Money out of Nothing*, TRUTHUSA.ORG, http://digital.library.ucla.edu/websites/2010_997_007/articles/fed/money.htm.

[13] SUFYAN ISMAIL, 1ST ETHICAL, WHY ISLAM HAS PROHIBITED INTEREST & ISLAMIC ALTERNATIVES FOR FINANCING. (discussing the impacts of interests on different aspects of the society and the government).

ISLAMIC FINANCE

Islamic finance is any finance that is compliant with the principles of *Shari'ah*. The concept underlying Islamic finance and Islamic financing tools is 'risk sharing', which means that the lender and borrower share the profits and losses of the project.[14] Ethically, the Divine origins of those methods means that are suited to human nature and therefore provide the best for all the parties involved – the interests of weaker parties are not compromised.[15]

Islamic Financing Tools

It is important to understand that, for all the IF contracts, as well as any other contracts entered into under Islamic law, both parties must fulfill the conditions of contract law including the requirements for sanity, freedom and mutual consent.[16] Also, IFT share the common features of being: interest-free, risk- sharing and parties are considered partners and encourages investments and production.

> *Mudarabah*: Is one of the most widely used tools of Islamic finance. When the term is translated into English, different scholars use different terminology: 'trust financing', 'trustee profit-sharing', 'equity sharing', 'sleeping partnership' and 'profit sharing'.[17] *Mudarabah* is a special form of partnership (*Musharaka*) *In Mudarabah* one party acts a financier or the capital owner who provides the entire capital needed for financing a specific project. The other party acts as a manager who manages the project by devoting his efforts, expertise and labor.[18] profits will be shared between the two parties in accordance with previously agreed proportions. The key difference between *Mudarabah* and an interest-based loan is that in interest-based loans the

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14 In addition to providing more protection for lenders, 'risk sharing' also promotes good investments. When the lender bears part of the risk they will be more careful in choosing their projects and prepare more accurate strategy plans that will eventually benefit all the parties involved as well as the economy in general. Even though this principle promotes different kinds of investment, it can be viewed as more inclined toward the borrower, leaving the lender with weak motives to lend money. The Islamic economic system possesses other tools for encouraging people to lend and invest their money without charging interest. In additions to God's heavenly and mundane rewards to those who work hard, those who build and develop the earth, and those who spend on good deeds, there are other mundane motives. Making an investment and entering into a partnership to make profit is one motive that makes people get into business every day. Also, lenders do not have any control over the way the borrowed money is being spent or consumed and if the borrower went broke they lender might end up with nothing. In the partnership relation, both partners need to work together to ensure that the money will be invested wisely and profitably, this in turn will increase the chances of success of the investment and eventually the chances of the lender getting their money back plus the profit incurred. Also, when the money is borrowed for consumption it will create extreme injustice to make the borrower pay back the borrowed money, which has not created any profit, with interest. This injustice will create damages to the society in which the lender themselves live.

15 RAJ BHALA, UNDERSTANDING ISLAMIC LAW 434 (LEXISNEXIS 2011), at 737.

16 NIK NORZRUL THANI ET AL., LAW AND PRACTICE OF ISLAMIC BANKING AND FINANCE 46 (2010).

17 *Id.* at 49.

18 HANS VISSER , ISLAMIC FINANCE: PRINCIPLES AND PRACTICE 26 (Cheltenham : Edward Elgar 2010) [hereinafter VISSER, ISLAMIC FINANCE] at 54.

borrower (is obliged to make repayments regardless of the his financial condition)[19] unlike *Mudarabah* where the risk will be shared between the financier and the project manager.

Musharaka: This concept is equivalent to the English term 'partnership'. A relatively new type is *musharakah mutanaqisah*. *Musharakah mutanaqisah* is used in home financing in the US and other parts of the world. This type of co-ownership is based on the concept of diminishing partnership. It consists of three contracts: *Musharakah* (co-ownership), *Ijarah* (lease) and *bay* (sale). First, the parties enter into a *Musharakah* agreement (joint ownership). Second, one party (the financier in the case of the financing of a property purchase) leases their share in the subject matter ownership to the other party under the concept of *Ijarah*, during which the other party gradually buys the first party's share at an agreed portion periodically until the subject matter is fully owned by the second party.

Sukuk (Islamic bonds) is one of the most important and widely used tools of finance in the Islamic banking and finance system. The differences between Islamic and non-Islamic bonds.

1- First, bonds are debts, while *sukuk* are certificates of participation in underlying assets.
2- Second, with bonds, the parties are lender and borrower, while the parties in *sukuk* are issuer and investor who are partners with shared interest.
3- third, with bonds, the borrower is obliged to repay the lender the principal amount plus a specified interest, while in s*ukuk* the issuers pay the investors their share of the profit.[20]
4- Sukuk are for limited time only ie the time of the project while bonds are of unlimited duration.

Ijara shares many similar characteristics to lease financing and hire-purchase arrangements. Relevant to *Ijarah* contracts is *Ijarah thumma bai'*, which is known in modern finance as a hire-purchase agreement. *Ijarah thumma bai'* is the act of hiring a specific item (property or goods) followed by the sale and purchase of that item by the leaser to the lessee.[21]

Istisna`a is defined as "a contract whereby a party undertakes to produce a specific thing which is possible to be made according to certain agreed-upon specifications at a determined price and

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19 *Id.*

20 RAJ BHALA, UNDERSTANDING ISLAMIC LAW 434 (LexisNexis 2011), at 758-759. There are a number of different types of *sukuk* in terms of their nature, some examples are : *ijarah sukuk* (certificate of ownership of leased assets), *istisnā sukuk* (certificates in manufacturing), *mushārakah sukuk* (certificates in project finance), *mudārabah sukuk* (certificates in *mudārabah* partnership), *muzāra'ah sukuk* (sharing cropping certificates).

21 *Id.* at 49.

for a fixed date of delivery. This undertaking of production includes any process of manufacturing, construction, assembling or packaging."[22]

Microfinance and Islamic Finance

Microfinance is a growing method used to face the challenge of poverty or need for cash to spend or invest. Due to the limited size of this paper I will only discuss this topic very briefly,

Below I will discuss some of the main challenges that face microfinance and dicuss how Islamic finance can mitigate them:

1) Microfinance loans mainly go toward consumption.[23] While IF go toward investment.
2) The interest rates on microfinance loans are usually higher than the market rate higher which stands in clear contrast with the purpose of microfinance to offer "cheap" credit. New Zealand government and the Consumer Affairs Minister Kris Faafoi have recently proposed to cap the amount lenders can earn off loans due to the negative impact that high interest rate is creating on the borrowers. IF does not allow for interest-charging mechanisms and is based on risk sharing.
3) Risk Sharing creates stronger incentives to work because profit increases the harder a person works. While consumption leads to more borrowing.
4) Poor borrowers who borrows for investment and business purposes have limited access to economic education and training in general. Therefore, their business activities may actually harm their financial status especially that microfinance institutions are unable to interfere with their activities which as a result might hamper their ability to repay their loans. On the other hand, because of the partnership relationship between IF institution and the beneficiaries and because those institutions have better resources and access to information than individuals, it is as much in the interests of these institutions as it is in the interests of the beneficiaries to undertake the required planning to assess the success of the proposed investment before financing it, which as a result will benefit the institution as well as the individual.
5) Microfinance institutions are funded by external resources and/or governmental subsidies. Externally funded MFIs face a number of challenges. First, their funding is unsustainable.[24] Second, money is used inefficiently as it gets hung up in the overly complicated funding

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22 ISLAMIC DEV. BANK, ISTISNA'A MODE OF FINANCING (Jan. 2002) *available at* https://faculty.fuqua.duke.edu/~charvey/Teaching/BA456_2002/isdb_intisna.pdf.

23 *Microcredit has been a Disaster for the Poorest in South Africa*., 2013 THE GUARDIAN, Nov. 19, 2013 *available at* http://www.theguardian.com/global-development-professionals-network/2013/nov/19/microcredit-south-africa-loans-disaster (last visited Feb. 22, 2015).

24 Haruna Issahaku et al., *Financial Characteristics and Innovations in Microfinance Institutions in Ghana*, 1 AM. J. OF RURAL DEV. 43 (2013).

mechanism.[25] Third, donors usually focus on social objectives over financial objectives, and therefore many donors are not inclined to fund purely commercial entities.[26] Fifth, MFIs divert the scarce resources available to the government, which could be used on developmental business activities, to consumption and poorly planned investments.[27]

Probably one of the most distinctive features of Islamic finance is its ability to create its own resources yet not create an interest burden on the poor and needy applicants. The start-up capital is the main and most important fund that those institutions need. After that, the profits from the institution's investments should start to provide more capital, leaving a source of funds for upcoming investments.

6) MFIs face a moral hazard problem. A moral hazard problem arises when borrowers lack incentives to repay their debts. Not providing collateral and consuming loan money instead of investing it makes it harder, both financially and morally, to make repayments, especially when interest rates are high.[28] This problem has been compounded by the growing number of MFIs which allow people to get into serial lending.[29] Serial lending hinders people's incentives to work and earn enough money for repayments.[30] Ineffective and costly monitoring and contract enforcement procedures against defaulted borrowers weaken their incentives to make repayments even more.[31]

Since IF depends on financing rather than lending, the incentives for payments are incentives for making profits and the incentives for working are incentives for keeping one's business. In other words, a borrower who consumes his loan lacks incentives to repay it because they do not have a source of income, while an investor has strong incentives to work and profit since the larger the profit, the larger their income. On the other hand, the beneficiary of Islamic finance will have strong incentives to work because otherwise they will lose their source of income without the need for any collateral.

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25 *See* BRIGHT HELMS, CONSULTATIVE GRP. TO ASSIST THE POOR, W. BANK, ACCESS FOR ALL, BUILDING INCLUSIVE FINANCIAL SYSTEM 92-95 (Aug. 2005) *available at* https://openknowledge.worldbank.org/bitstream/handle/10986/6973/350310REV0Access0for0All01OFFICIAL0USE1.pdf?sequence=1.

26 Issahaku et al., *supra* note 24 at 43.

27 *Microcredit has been a Disaster for the Poorest in South Africa*., 2013 THE GUARDIAN, Nov. 19, 2013 *available at* http://www.theguardian.com/global-development-professionals-network/2013/nov/19/microcredit-south-africa-loans-disaster (last visited Feb. 22, 2015).

28 Microfinance reached more than 200 million customers in 2011, and microfinance investment vehicles held $7.5 billion in assets. Jonathan Morduch , *How Microfinance Really Works*, 2013 THE MILKEN INSTITUTION REV. 56 (2013).

29 Serial lending where people borrow from one Institution to repay loans for the other Institutions. *Id.* at 57.

30 *Id*.

31 *Id.* at 56.

In conclusion, the Islamic financing tools provides many alternatives for investors and financial institutions all of which does not only avoid charging interest, but also encourage investments and as a result employment, economic stability, fairness and achieve more social justice. All these reasons indicate that IF needs to be introduced as an additional financing option not only by Islamic institutions but also by other financial institutions and to be offered not only to Muslims but to everyone who find this option as a better match for their needs.

Islamic Finance Status on a Global Level

Islamic finance is one of the fastest growing areas of today's banking industry, growing at a rate of 10-15 percent. According to Global Finance in 2018 the Islamic finance is a $2.2 trillion industry spread over more than 60 countries. These figures reflects and emphasizes the potential market for such activities.[32] The role of Islamic finance had got more attention in the wake of the financial crisis as more debates took place on the role that Islamic finance can play in the stabilization of the global financial system because of the strong ethical principles on which this system is based.[33] This role reflects the growing international awareness of the positive features as well as the practicality of the system.

In October 2013 the United Kingdom announced itself to be the leading hub for Islamic finance and planning, becoming the first Western country to issue sovereign Islamic bonds (*Sukuk*). The issuing of *Sukuk*, worth around 200 million pounds, provided a much-needed liquidity management tool for Britain's six Islamic lenders and motivated local firms to consider issuing *Sukuk* of their own.[34] The first Islamic bank established in a western country (in Luxembourg in 1978) was established for the propose of providing high net worth individuals with *Shari'a* compliant financial services.[35]

Australia has a relatively long history with Islamic finance with the emergence of *Shari'ah* compliant home mortgages as early as 1989 through MCCA and later Islamic Co-operative Finance Australia and Iskan Finance and the latest Islamic fund was launched in 2018 by Olive Investment following a fund by Hajez Investment Funds. These institutions have expanded their operations and business over the years to include other products including investment funds, auto financing and business financing. More mainstream institutions including the National Australia Bank (NAB) are increasingly catering their products to the Muslim market. A number of Islamic investment managers and experts in Australia expect

32 AZIZ TAYYEBI, ASS'N FOR CHARTERED CERTIFIED ACCOUNTANTS, ISLAMIC FINANCE: AN ETHICAL ALTERNATIVE TO CONVENTIONAL FINANCE (Aug. 2008) *available at* http://www.financialislam.com/uploads/3/8/5/3/3853592/tech_tp_if6pp1.pdf.

33 European Central Bank, *Occasional paper series No. 146 / Junen 2013 By Filippo di Mauro, Pierluigi Caristi, Stéphane Couderc, Angela Di Maria, Lauren Ho, Baljeet Kaur Grewal, Sergio Masciantonio, Steven Ongena and Sajjad Zaher*.

34 Bernardo Vizcaino, *Britain Aims to be First Western Country to Issue Sovereign Islamic Bond*, 2013 REUTERS, OCT. 29, 2013 *available at* http://uk.reuters.com/article/2013/10/29/uk-britain-finance-islamic-idUKBRE99S00I20131029 (last visited Feb. 23, 2015).

35 BHALA, *supra* note 20 at 736.

the Islamic finance investment fund industry to grow up to US$22 billion by 2020. In addition to this, the Australian government in May 2016 under its 2016-17 budget recommended equal tax treatment for asset-backed financing, thus facilitating *Shari'ah* compliant transactions in the country. These changes, expected to be effective July 2018, while only applicable to a limited range of *Shari'ah* compliant transactions, are still considered significant progress for the Australian market.[36] The number and natures of IF institutions in Australia is various and very impressive for the Muslim population in Australia which constitute %2.6 of the total Australian population in 2016. When Islamic finance stated to take place in Australia in 1980s the Muslim population was %0.7 which is almost half the percentage of Muslim population in NZ of 1.2 as stated by the 2013 census and which I envision as has grown considerably in the last 5 years. If these figures reflect anything, they reflect that New Zealand is running late in making the right start in the right time.

These facts reflect the global awareness and tendency to develop IF to meet local demands but most importantly to fit in the new international market where many Muslim countries are becoming more and more economically developed and are either existing or potential trading partners to New Zealand. GCC countries, Malaysia, Singapore and many other countries which can find it very appealing and more convenient to trade with countries where IF and IFT are applied which as a result will bring great benefit New Zealand economy.

Why Islamic Finance in New Zealand and What are the Challenges and Approaches

A number of challenges have been identified by Australian and New Zealand experts in Islamic finance to the introduction and application of IF in New Zealand. Two of the main challenges are: low demand with only %1.2 percent Muslim population and higher risk that could be associated with the risk-sharing concept on which IF is based. These two challenges make it less appealing to financial institutions to adopt this system and as a result, it will be hard to convince existing financial institutions to offer IFT. Another challenge is the difficulty of establishing new institutions to offer IFT in addition to the cost involved in running and managing these new institutions.

My response to these challenges are the following: as I have stated earlier in this paper, this paper does not propose IF and IFT to be applied to the Muslim population, in fact it proposes the application the IF as a financial system that is as valid and applicable as any other financial system including the one currently applied in New Zealand which is heavily based on interest and risk shifting.

If this is the approach to be followed, then the Muslim population in New Zealand will not be a factor to be considered as the factors to be considered will be the viability and advantages of the IF system and

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IFT since they will be offered to everyone and can be offered by any institution. The other factors to be considered are the availability of experts and advice on these tools and resources to manage it.

New Zealand being a country of a free market with a history of maintaining higher social justice values it needs to promote, apply and facilitate access to different financing systems and financing tools leaving it to the people to choose what suits them the most and limits its role to provide the needed support to the people who need the finance.

This point leads us to the third and last challenge this paper will discuss; the availability of the suitable platform to apply a new financial system in terms of enacting the required laws and regulations to govern new financial tools. Currently New Zealand had a very well developed financial market laws and regulations as well as a number of governmental agencies and departments with the sole goal of regulating the New Zealand financial market. These resources possess the required level of knowledge and expertise to add the needed provisions in order to make the application of IF and IF tools an easy task.

APPROACHES

There are a number of ways that IF can be applied in New Zealand. These are;

1) existing New Zealand banks and financial institution applying IF tools as an additional services and option to be offered to its clients.
2) initiating financial institutions which offers IF tools only in order to fill the gap in the availability of IF tools in the New Zealand market.
3) foreign banks and financial institutions which already offers IF tools to initiate financing windows in New Zealand to offer these services.
4) foreign governments coordinate with existing financial institutions and/or Islamic organizations in New Zealand to provide the required support to offer IF tools.
5) Islamic Organizations in New Zealand develop financial department to offer IF tools.

The technicality and formality of how each one of these approaches will need a separate article which the author intend to commence working on soon inshallah.

PROCESS

Before initiating any of these models there are a number of steps that need to be taken in order to set the stage for the application of the IF tools;

1) Education: people need to know more about these tools, their benefits to the economy, the community and the users as well as its mechanism and the way they work.

2) The development of the necessary framework by Law and policy makers to enable the application of these tools. There are a number of successful examples around the world where this has been successfully accomplished including, for example, Malaysia and Nigeria.
3) Marketing: Since these tools will be offered to everyone, these tools, just like any other new product or services, should be marketed in an efficient way to reach their potential clients.

CONCLUSION

IES, IFS and IFTs are systems which are as valid as any other economic and financial systems and bring many economic and ethical advantages to the people.

IFS and IFT are both intended to benefit and empower the people who need finance by providing them with a system that offers better financing terms and more social justice to the community finance through the concept of risk-sharing.

people tend to increase their wealth where they can find a financing system that matches their needs. Therefore, an effective economic system should make financing available and accessible by different groups in society

The proposal I made today of offering IF and IFT can be utilized by everyone mitigate the challenges currently identified for introducing IF in New Zealand mainly the low demand challenge.

The role of a government that promote social justice is to support and promote new financial systems that offer different financing tools and mechanism, and leaving it to the people to chose the ones that suits their needs best.