



Research Paper

Islamic Economic Institutions' Dynamics in Muslim and Non-Muslim Countries: Comparison of Morocco and Australia

Muhammad Ash Shayiim^{1*}, Naufal Luthfi Alifa²

^{1,2} Faculty of Islamic Economics and Business, State Islamic Cyber University Syekh Nurjati Cirebon, Indonesia

Email Corresponding author: muhammadashshayiimal@gmail.com

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ABSTRACT

Studies on Islamic economic institutions have developed significantly as part of the discourse on alternative and inclusive economic systems. However, in practice, many obstacles remain in implementing Sharia principles amid digital transformation and global institutional dynamics. This research aims to comparatively analyze Islamic economic institutions in Morocco and Australia, focusing on institutional structures, regulations, and the socio-economic contexts that influence the performance and sustainability of these institutions. The research employs a quantitative method with a comparative approach between the two countries, using purposive sampling of Islamic economic institutions that have operated for at least five years and publish verified reports. Data were collected from secondary documentation and analyzed through descriptive statistics, mean difference tests, and variable correlation analysis. The findings indicate that the success of Islamic economic institutions is strongly influenced by national contexts and institutional systems. Morocco adopts a top-down institutional model integrated into state regulations, while Australia relies on community-driven innovation within a regulatory framework that remains unspecific. Therefore, Indonesia can strengthen its Islamic finance ecosystem by combining robust regulations with market-based innovations.

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Introduction

The study of Islamic economic institutions has developed significantly within the discipline of economics based on ethical principles and Islamic law, particularly due to the widespread digital transformation across various economic sectors, especially since the concept of Islamic economics has become an important part of the global discourse on alternative and inclusive economic systems (Sari, 2025). The background of this research stems from the idea that Sharia-based economic institutions, such as Islamic banks, Islamic microfinance institutions, or productive waqf, function not only as providers of financial services but also as instruments for achieving macro objectives such as distributive justice, sustainable development, and social welfare. Researchers have shown that institutional quality including aspects of regulation, supervision, and governance is a crucial factor in linking economic policy and growth in Muslim-majority countries (Wibowo et al., 2021).

In the context of a Muslim country such as Morocco, Islamic economic institutions have experienced regulatory and practical evolution through the establishment of participatory banks and Sharia-based financial institutions managed by official authorities and fatwa councils (for example by regulating murabahah, ijarah, and mudarabah products) (Bank Al-Maghrib as the supervisory authority and the Supreme Council of Ulema as the guardian of Sharia compliance) (Ali et al., 2023). Conversely, in a non-Muslim country such as Australia, although Muslims are a minority, the development of Islamic economics and Sharia-compliant finance has begun to emerge through research institutions and Sharia-based financial services, but still faces challenges in regulation, inclusion, and local adaptation.

The context of this research positions both countries within a comparative framework: how Islamic economic institutions are formed and function in two very different environments, one a Muslim-majority country with a legal system that accommodates Sharia, and the other a non-Muslim country with a different regulatory framework and a more plural society. Although the literature review presents a map of the role of Islamic economics at the global level, there remains a gap in national-level comparative studies that examine institutional structures, regulation, local adaptation, and operational outcomes across Muslim-majority and non-Muslim jurisdictions (Hassan & Aliyu, 2018). This gap is especially evident in the lack of empirical studies comparing two environments that differ significantly in culture and regulation, such as Morocco and Australia, within a single research framework. In addition, global economic developments, financial digitalization, and the integration of international financial systems present new challenges for Islamic economic institutions in both Muslim and non-Muslim countries. These conditions demand adaptive and innovative institutional strategies so that Sharia principles remain relevant in global economic dynamics.

Therefore, this research aims to comparatively analyze Islamic economic institutions in Morocco and Australia in order to identify structural and regulatory

similarities and differences as well as their implications for the effectiveness and sustainability of Islamic economic institutions in each country. This research also aims to show how contextual factors (majority vs minority religion, regulation, governance) influence the performance and capacity of Islamic economic institutions in achieving the objectives of maqasid al-shariah and their contribution to economic and social development. Through this study, the significant contribution offered is the development of a conceptual roadmap that connects Islamic economic institutions with different national contexts and fills the empirical gap regarding non-Muslim countries in the Islamic finance literature. The findings of this comparative study are expected not only to provide theoretical contributions to the literature on cross-country Islamic economic institutions but also to offer reflective insights for Indonesia in formulating strategies to strengthen globally competitive Islamic economic institutions.

Method

This study employs a quantitative method with a comparative approach between two countries, Morocco and Australia, to examine the differences and similarities in Islamic economic institutions within the contexts of a Muslim and a non-Muslim country. The quantitative method was chosen because it allows the measurement of institutional variables through observable indicators and statistical analysis. The comparative approach is applied to provide a systematic analysis of how regulation, institutional structure, and socio-economic context interact with the performance of Islamic economic institutions in each country, as explained in studies on Moroccan Islamic banking that emphasize the role of regulatory frameworks and the national Sharia Council in maintaining operational compliance (Fakhri et al., 2024).

The research population consists of all Islamic economic institutions in both countries that meet the criteria of having operated for at least five years, published verified annual reports, and being recognized by financial authorities. The purposive sampling technique is used to select institutions that represent these characteristics. Data are collected through secondary documentation, including reports from Islamic financial institutions, official statistical data, and recent publications related to Islamic economics and institutional regulation. The research instruments consist of quantitative observation sheets measuring variables such as institutional structure, regulatory policies, institutional performance, and contextual factors (for example, Muslim population, legal stability).

Data analysis is conducted using descriptive statistics to describe the profile of each country and comparative tests (for example, mean difference tests) to assess whether there are significant differences between the two countries for the specified variables. Correlations between variables are also analyzed to examine the

relationships among regulation, institutional structure, and institutional performance. Interpretation of the results refers to recent literature that discusses Islamic economic institutions and the stability and performance of Islamic financial institutions, including observations on how Islamic institutional systems respond to global economic turbulence. The theoretical foundation is the concept of new institutional economics relevant to Islamic finance, along with reflections on recent literature on Islamic finance in the context of global economic crises (Pusparini et al., 2025). Thus, this research framework is expected to provide clear empirical and comparative insights into how institutional contexts in Muslim-majority countries differ from those in Muslim-minority countries in the development of Islamic economics, as well as present the implications for countries such as Indonesia.

Results and Discussion

Geographical Conditions and Economic Situation in Morocco and Australia

Morocco is a country in North Africa with a very long coastline along the Atlantic Ocean. Its coastline stretches to the Strait of Gibraltar and the Mediterranean Sea, bordered by Algeria in the east, Spain in the north through the Spanish enclaves of Ceuta and Melilla, as well as Western Sahara and Mauritania in the south. Its territory consists of relatively fertile coastal areas in the west and north, the Atlas Mountains that extend from west to east, and semi-arid to desert regions in the southern part. Due to this configuration, the climate varies from Mediterranean along the coast to semi-arid in the interior, which directly affects the agricultural sector and land use planning (Mukrimaa et al., 2016).

Economically, Morocco's economic condition shows moderate development with efforts to diversify sectors and implement fiscal policy reforms aimed at strengthening inclusive growth. However, the country still faces major challenges such as high unemployment, low productivity, and the dominance of the informal sector, which hampers the effectiveness of economic policies and financial inclusion (Moufid & Boussedra, 2025). In this context, the Islamic banking system that has begun to develop in Morocco has the potential to expand financial access through products aligned with the social and religious values of society. The adoption level of Islamic banking products in Morocco is strongly influenced by factors such as relative advantage, compatibility, and perceived risk among customers (Amine and Faissal, 2021). This indicates that strengthening the national economy and improving financial literacy remain key factors in promoting the growth of the Islamic finance sector in the country.

Meanwhile, Australia is a continent located in the southern hemisphere, situated in the South Pacific island region, and is also a neighboring country to Indonesia located to its east. Astronomically, the Australian continent lies between 113 degrees East Longitude to 120–115 degrees East Longitude and 10 degrees South Latitude to 43 degrees South Latitude. Its geographical conditions are relatively

similar to Indonesia due to their close proximity. Geographically, Australia is located between the Indian Ocean and the Pacific Ocean, bordering Antarctica in the south and the Southeast Asian archipelago in the west. The coastline of Australia, particularly in the northwest and northern regions, forms the closest boundary to the islands of Indonesia. The position of the Australian continent is indirectly isolated when viewed from these geographical boundaries, although as noted earlier, one of the closest countries to Australia is Indonesia (Arviansyah et al., 2023).

Economically, Australia is one of the developed countries with a strong economy that is highly integrated into the global economic system (Iskandar et al., 2025). As a major exporter of various commodities supported by its abundant natural resources, Australia plays a significant role in international trade. Its strategic geographic location in the Asia-Pacific region strengthens its position as a potential economic partner for countries within the region.

Institutional Dynamics of Islamic Economic Institutions in Morocco and Australia

The development of Islamic economics in Morocco cannot be separated from the major changes within its banking system. From the beginning, Morocco's financial system adopted a conventional model that was highly integrated with the European market. However, the increasing public demand for financial products compatible with sharia principles encouraged the government to carry out structural reforms of national banking regulations. This step marked the beginning of the establishment of an Islamic banking system in Morocco, known as banques participatives or participatory banks (De et al., 2022). Morocco undertook a transformational move to integrate the Islamic finance industry into its national regulatory framework starting from the mid-2010s. The formal process began when major revisions to the banking law Loi n°103-12 (published in the Bulletin Officiel in 2015) introduced provisions that allowed the existence of banques participatives (participatory or Islamic banks) and established supervisory frameworks and sharia compliance requirements. This amendment created a clear legal foundation for participatory banking and its products (murabaha, ijara, mudaraba, musharaka), and clarified the role of local authorities in licensing and oversight.

Institutionally, Morocco adopted a gradual and controlled strategy, developing the Islamic financial system in stages under strict state supervision. The government did not fully allow foreign Islamic banks immediately but encouraged collaboration between domestic banks and partners from Islamic countries such as Qatar and the United Arab Emirates. This strategy proved effective in maintaining financial stability while building local capacity. Bank Al-Maghrib also established internal sharia committees within each participatory financial institution, operating under the coordination of the CSO to ensure uniformity of fatwa and sharia practice at the national level (Fakhri, 2024). Once the legal framework was available, implementation proceeded rapidly in 2017 when the authorities (Bank Al-Maghrib

and the licensing committee) issued permits for several banks to open participatory units or subsidiaries. Major domestic banks chose to open subsidiaries or participatory windows, and newly established fully participatory banks (such as Umnia Bank) began operating, marking the transition from discourse to commercial practice. This development also involved strategic cooperation between domestic players and foreign investors, particularly from the Islamic banking sector (Zehra et al., 2022).

Alongside the launch of participatory banks, Islamic capital market instruments (sukuk) also began to be accommodated regularly. The government and regulators modified the capital market framework to allow sukuk issuance (including sovereign sukuk), which was an important step for mobilizing public financing and attracting sharia-compliant investors. The issuance of sovereign sukuk (the first in Morocco's modern context around 2018) signaled the country's intention to position itself as an active player in the Islamic finance ecosystem in North Africa (Ziky et al., 2024). Meanwhile, the social aspects of Islamic economics such as zakat, waqf, and Islamic microfinance began to be explored as potential drivers of financial inclusion. Recent studies indicate increasing public awareness of zakat and the potential establishment of a professional national zakat management institution (Ghaouri et al., 2023).

Australia has experienced the emergence and development of Islamic economic institutions over the past few decades, although at a relatively small scale compared to traditional Islamic finance countries. One of the pioneers of Islamic economic institutions in Australia is the Muslim Community Co-operative Australia (MCCA), founded around 1989 to serve the financial needs of the Australian Muslim community through sharia-based products such as home financing, leasing, and investment (Aqib Ali, 2023). Over time, other institutions appeared such as Islamic Co-operative Finance Australia (ICFAL) as a sharia cooperative and several alternative financial service providers offering halal or sharia-compliant products. However, a full Islamic banking system has not yet been established within Australia's regulatory framework.

In recent years, efforts have been made to form an industry umbrella body that could strengthen the position of Islamic economics in Australia. For example, on 4 June 2025 the Islamic Finance and Investments Association (IFIA) was launched as a peak body for the Islamic finance industry in Australia, advocating policy reform, liaising with regulators, and representing the needs of the Muslim community and sharia-compliant investors (Williamson, 2025). From a regulatory perspective, Australia applies a conventional banking and financial framework overseen by the Australian Prudential Regulation Authority (APRA) and the Australian Securities and Investments Commission (ASIC). For Islamic financial institutions, challenges arise because sharia-based products often require different fiscal or regulatory treatment (such as rules on interest, asset ownership, and murabaha or ijara

structures), and Australia has not yet issued comprehensive legislation dedicated to Islamic finance (Bhatti et al., 2022).

In 2022, an institution calling itself an Islamic bank, Islamic Bank Australia (IBA), obtained a Restricted ADI (Authorised Deposit-taking Institution) license from APRA as an initial step toward entering the market. However, the license was later withdrawn due to challenges in capital raising and operational structuring. In addition, the sharia-compliant investment market in Australia has begun to show dynamics, with funds registered as sharia-compliant, sharia indices on the Australian Stock Exchange (such as the S and P/ASX Shariah Index), and global investors selecting Australia as an asset destination for sharia-based investments (Greenall, 2025).

Overall, the institutional dynamics of Islamic economics in Morocco and Australia show two development models that differ in context yet share the same orientation of building a just and inclusive financial system based on sharia principles. In Morocco, the Islamic economic system developed through a top-down institutional approach integrated with national policy. The government, through Bank Al-Maghrib and the Supreme Scientific Council (CSO), played an active role in designing regulations, granting licenses, and overseeing sharia compliance in financial institutions. Law No. 103-12 marked an important milestone by creating a strong legal foundation for the establishment of banques participatives and expanding Islamic financial instruments such as murabaha, ijara, musharaka, and sukuk. This model shows that institutional integration of Islamic economics within a national system can succeed when supported by a strong legal framework, centralized supervision, and a phased strategy.

Meanwhile, in Australia, the development of Islamic economic institutions has taken place through a bottom-up mechanism driven by initiatives from the Muslim community and private organizations. Institutions such as the Muslim Community Co-operative Australia (MCCA) and Islamic Co-operative Finance Australia (ICFAL) have been pioneers in providing sharia-compliant financial services without dedicated legal frameworks. Recent efforts such as the establishment of the Islamic Finance and Investments Association (IFIA) in 2025 reflect a collective awareness to strengthen advocacy for Islamic finance at the national level. However, the lack of specific regulation, fiscal challenges, and the absence of fully fledged Islamic banking remain major structural obstacles to the development of Islamic economics in Australia.

In terms of similarities, both countries show a commitment to developing financial institutions compatible with sharia principles and enhancing financial inclusion among Muslim communities. Both have also begun adopting modern sharia-based financial products such as murabaha and sukuk as instruments for sustainable economic financing. However, their differences lie in institutional approaches and regulatory support. Morocco develops its Islamic financial system with full government backing and centralized national sharia oversight, while

Australia remains in an experimental stage of institutional development with adaptive and community-driven regulatory practices. As a result, institutional effectiveness in Morocco is relatively higher in terms of legal certainty and coordination among authorities, while in Australia, community flexibility and innovation become key strengths in maintaining the relevance of Islamic finance within a secular and multicultural environment.

Thus, the comparison between the two countries shows that the success of Islamic economic institutions is strongly influenced by socio-political context, legal systems, and the level of state support. Morocco represents a model of state-driven institutionalization, while Australia illustrates community-driven adaptation. These experiences offer important insights for countries such as Indonesia on how to design Islamic economic institutional strategies that are not only sharia-compliant but also adaptive to national contexts and global economic dynamics.

Challenges and Strategies for Strengthening Islamic Economic Institutions Globally in Morocco and Australia

The development of Islamic economic institutions across the world has not progressed uniformly. Each country faces different social, political, and economic contexts in adapting sharia principles into the modern financial system. Two interesting examples in this regard are Morocco and Australia. Morocco, as a Muslim-majority country, follows a state-driven institutional reform path with an integrative orientation toward national legal and financial systems. In contrast, Australia, a secular state with a minority Muslim population, develops Islamic economic institutions through community-driven and market-based initiatives. Both face different challenges in strengthening the institutional foundations of Islamic economics but share similar opportunities for enhancing competitiveness in responding to global challenges.

In Morocco, the main challenge relates to the harmonization of regulations and legal certainty regarding sharia-compliant financial practices. Banking reforms initiated since the issuance of Loi n°103-12 in 2015 paved the way for the establishment of banques participatives or participatory banks. This step represents the formal integration of Islamic banking into the national financial system (De et al., 2022). However, on-the-ground implementation shows that Morocco still struggles with gaps between technical regulations and market realities. Tax and accounting rules for sharia products such as murabahah, ijarah, and musharakah are not yet fully aligned with the conventional system, creating uncertainties in reporting and fiscal compliance. Additionally, although the National Sharia Committee (CSO) has been established to oversee sharia compliance, there are still no standardized guidelines for sharia reporting and certification across institutions (Fakhri, 2024). This leads to inconsistencies in fatwa implementation and potentially reduces investor trust.

From the capital market perspective, Morocco faces obstacles in expanding liquidity and product diversification. The issuance of the first sovereign sukuk in 2018 was a milestone, but the secondary sukuk market remains relatively limited (Green, S., and Talby, 2018). Recent efforts to introduce green sukuk show positive progress in linking Islamic finance with the sustainable development agenda (Amoumri, 2025). Nevertheless, the institutional infrastructure needed to support the management, distribution, and oversight of these instruments still requires strengthening. Furthermore, sharia-based financial inclusion in Morocco remains low, particularly in rural areas. Many communities still lack adequate understanding of participatory banking, productive zakat, or waqf as socio-economic instruments.

Unlike Morocco, Australia faces a more fundamental challenge, namely the absence of a dedicated regulatory framework for Islamic finance. All sharia-compliant financial activities in Australia are subject to general rules issued by the Australian Prudential Regulation Authority (APRA) and the Australian Securities and Investments Commission (ASIC). The legal and tax systems designed for conventional models are often incompatible with sharia principles, particularly regarding asset ownership and the prohibition of interest (riba). This makes establishing a full-fledged Islamic bank difficult. A clear example is the experience of Islamic Bank Australia (IBA), which obtained a restricted ADI license in 2022 but later returned the license to APRA in 2024 due to capital and business structure challenges.

Despite these constraints, the development of Islamic economic institutions in Australia shows positive momentum. Cooperative institutions such as Muslim Community Cooperative Australia (MCCA) and Islamic Cooperative Finance Australia Limited (ICFAL) continue to serve as pioneers in providing halal financial services for the local Muslim community (Bhatti et al., 2022). Meanwhile, the launch of the Islamic Finance and Investments Association (IFIA) in June 2025 marks significant progress in building a coordination platform for the Islamic finance industry. IFIA is responsible for advocating policy reform, strengthening communication with regulators, and educating the public about sharia investment opportunities (Williamson, 2025). However, without flexible regulatory support and accommodative fiscal policies, the industry's potential growth will remain limited. Another shared challenge for both countries is the low level of sharia financial literacy and digital adoption. In Morocco, even though the government has promoted financial inclusion through participatory banks, much of the population still views sharia products merely as an alternative to conventional ones, rather than as a system with distinct moral and social advantages. Meanwhile in Australia, public literacy among non-Muslims regarding Islamic finance is minimal, and many financial institutions lack operational understanding of sharia contracts. Yet digital transformation offers significant opportunities through sharia fintech, zakat

crowdfunding, and halal investment platforms that can expand public access and participation (Fakhri, 2024).

To address these challenges, both countries require contextual and sustainable strategies to strengthen Islamic economic institutions. In Morocco, the most urgent strategy is to deepen the regulatory and fiscal harmonization between the conventional and sharia systems. Technical revisions to tax and accounting rules for sharia contracts are needed to create a fair and competitive business environment. Bank Al-Maghrib can enhance its coordinating role by issuing technical guidelines and standardized national sharia reporting models (Merroun and Mouallim, 2024). Furthermore, strengthening sharia governance capacity through training and professional certification for members of sharia committees across participatory institutions is a strategic step to maintain system integrity. Morocco can also expand its Islamic financing base by developing a secondary sukuk market and introducing green sukuk for infrastructure and environmental projects. These innovations not only deepen the Islamic capital market but also strengthen Morocco's position as an Islamic finance hub in North Africa. Digital financial literacy programs and sharia-based microfinance inclusion are also important, especially for low-income communities. Collaboration between the government, participatory banks, and local fintech startups can expand the reach of Islamic financial services at the grassroots level.

Meanwhile in Australia, strengthening Islamic economic institutions can begin through a collaborative approach between the government, financial institutions, and the Muslim community. A key step is to reinforce the role of IFIA as the peak industry body to serve as a strategic intermediary between regulators and market players. IFIA must take an active role in advocating policies that enable sharia business models to operate without legal barriers, for example through the implementation of regulatory sandboxes administered by APRA and ASIC for sharia fintech. This approach has proven effective in countries like the United Kingdom and Malaysia in accelerating halal product innovation under flexible oversight (Bhatti et al., 2022). Australia can also leverage cross-country partnerships with Islamic financial institutions in the Middle East and Southeast Asia. Such cooperation can strengthen capital, accelerate technology transfer, and create bilateral investment opportunities in halal sectors and sustainable infrastructure. Additionally, public literacy campaigns on Islamic finance should be promoted not only among Muslims but also across society to increase understanding that Islamic economics is an ethical universal system emphasizing justice and sustainability.

In general, both Morocco and Australia need to adapt to global trends such as financial digitalization, green economy, and sustainability. Islamic economic institutions have great potential to become an alternative model for addressing financial crises and social inequality through principles of distributive justice and prohibition of riba. However, this potential can only be realized if institutional systems are strengthened through transparent governance, inclusive regulation, and

cross-sector collaboration. Morocco, with its regulatory strength, can be a model of stable formal integration, while Australia, with its market flexibility, can serve as an innovation laboratory for Islamic economics in non-Muslim contexts. Synergizing lessons from both countries can enrich the global Islamic finance ecosystem and make it more resilient in facing future global economic challenges.

Reflective Comparison of Islamic Economic Institutions in Morocco and Australia for Indonesia

The development of Islamic economic institutions in various countries offers important lessons for Indonesia in designing an institutional strategy that is resilient and relevant to global dynamics. Two countries that are particularly interesting to compare are Morocco and Australia. Morocco, as a Muslim-majority country, has taken relatively clear regulatory and institutional steps to integrate Islamic finance into its financial system, while Australia, as a secular country with a minority Muslim population, developed Islamic finance through community and market initiatives with more adaptive regulation. Indonesia, with its Muslim-majority population, a relatively mature Islamic finance industry, and its own domestic challenges, can draw critical lessons from both models to strengthen the national Islamic finance ecosystem.

First, Morocco's experience shows that the existence of a specific legal framework and centralized regulatory enforcement can help foster trust and certainty for Islamic finance actors. In Morocco, the enactment of Law No. 103-12 in 2014/2015 paved the way for the establishment of *banques participatives*, participatory banks based on Sharia principles, which are regulated by the monetary authority and required to have an internal Sharia compliance function as well as oversight from the Supreme Ulema Council. This framework ensures that Islamic banks in Morocco obtain licenses and are subject to the same supervision as conventional banks, but with mechanisms adjusted to meet Sharia principles. This provides an example for Indonesia that explicit regulation of Islamic finance, both in banking and capital markets, can create a strong institutional foundation. For Indonesia, which already has the Islamic Banking Law and the Financial Services Authority overseeing Islamic financial institutions, it is important to ensure that regulation is not only formally present but also consistently implemented, with uniform Sharia reporting standards and adequate audit and supervisory mechanisms.

Second, Morocco also demonstrates that beyond regulation, the success of Islamic financial institutions depends greatly on the capacity of Sharia governance. Research related to the Sharia compliance framework in Morocco's participatory banks shows that legislation requires the existence of an internal function responsible for examining the operational compliance of banks with the fatwas of the Ulema Council (Mechkour, 2018). However, in practice, participatory banks in Morocco still face challenges related to liquidity and delays in developing Islamic

capital market instruments, indicating that governance is not only a matter of regulation but also human capability, internal processes, and market mechanisms. For Indonesia, which has a wide network of Islamic banks and Islamic microfinance institutions, this indicates that strengthening the competencies of Sharia committees, preparing Sharia reporting guidelines, and enhancing research and education in Islamic finance are strategic investments to ensure that institutions operate not only technically but also ethically and with credibility.

Third, Australia's experience offers a different but equally important perspective: when formal regulation has not fully accommodated Islamic finance, innovation from the community and market can become the initial driver of development. In Australia, although Islamic financial institutions have not grown on a large scale, various initiatives such as Islamic Co-operative Finance Australia and institutions focused on halal products have emerged. However, legal and fiscal challenges remain significant. Tax burdens, asset treatment, and non-specific regulation make it difficult for Islamic institutions in Australia to fully compete (Bhatti et al., 2022). This shows Indonesia that in addition to strengthening formal regulation, it is also important to build an inclusive market ecosystem, broad financial inclusion, public education, and cross-sector cooperation that strengthens the Islamic finance network from the grass-root level to the national scale.

Fourth, from the comparative experience of the two countries, it can be seen that a combination of regulatory and market strategies is key. Morocco places emphasis on strong regulation and supervision, but still faces issues of liquidity, product diversification, and financial literacy. Australia may be slower in regulation but has market flexibility and community innovation. Indonesia should combine both: adequate regulation while also providing room for innovation in Sharia fintech, productive waqf, Sharia crowdfunding, and micro-level financial inclusion. In this way, Indonesia can strengthen its position as a regional and even global Islamic finance hub.

Fifth, in the Indonesian context there are significant opportunities to strengthen the Islamic capital market through the issuance of sukuk and other Islamic financial instruments directed at sustainable development. Lessons from Morocco, which has begun issuing sovereign sukuk and developing green sukuk for environmental projects, show that Sharia-compliant instruments can be directed not only at the financial sector but also at physical and social development (Jihane-rahhou, 2024). Indonesia, with its major potential in infrastructure, green economy, productive waqf and zakat, can optimize its Islamic capital market framework. However, this requires mature institutional preparation such as governance, reporting standards, supportive tax and accounting regulations, and investor education.

Awareness of digitalization and technological transformation is also an important lesson from both countries. Morocco shows that Islamic financial institutions need to adopt fintech and RegTech to expand service reach and increase

efficiency. Research related to the use of fintech in Morocco's banking system notes that institutions need to pay attention to customer segmentation, language-based communication, and Sharia compliance in digital service options. Indonesia, with relatively high internet penetration and a large young population, has a major opportunity to lead in Sharia fintech. However, the challenge lies in overcoming slow regulation, uneven digital and Sharia literacy, and infrastructure limitations in eastern and remote regions.

In terms of financial inclusion, reflections from both countries are also relevant. Morocco faces challenges in reaching rural communities and informal segments, which often do not understand Islamic financial products and still rely on informal services. Australia, although generally having high financial inclusion, still needs to improve Islamic financial literacy in minority communities and expand genuinely Sharia-compliant products (Jivraj, 2024). Indonesia faces similar challenges, although on a larger scale: there remains a gap between urban and underdeveloped regions, and the penetration of Islamic banks and Islamic microfinancial services is not yet evenly distributed. Therefore, Islamic financial literacy programs must be part of a national strategy, including through schools, universities, media, and cooperation with fintech and microfinance institutions.

In addition, reflections on Sharia governance show that outstanding Islamic economic institutions pay attention not only to technical compliance with fatwas but also to governance, transparency, accountability, and integration with the principles of *maqasid al-shariah*, such as distributive justice, social benefit, and inclusion. Morocco has incorporated into regulation that participatory banks must have internal functions monitoring Sharia compliance and oversight by the Ulema Council (Mechkour, 2018). Indonesia can strengthen these governance instruments, for example through the establishment of national certification for Sharia committees, professional Sharia audit institutions, and transparent Sharia reporting that can be accessed by the public. This will increase stakeholder trust, both among customers and investors.

From a global learning perspective, this comparative experience underscores that the success of an Islamic financial system is not determined solely by Sharia-compliant products, but by institutional efficiency, regulatory integration, technological adaptation, and social inclusion. For Indonesia, which holds a strategic position both demographically and geographically in Southeast Asia, this is a call to strengthen the Islamic finance ecosystem with a long-term vision not merely as an alternative but as a driver of inclusive and sustainable economic growth. However, this reflection also emphasizes that national context adaptation is key: a model that succeeds in Morocco cannot necessarily be applied directly in Indonesia without adjustments to local conditions such as social plurality, the secular national legal system, and global financial dynamics. Likewise, the approach used in Australia, although more flexible, cannot be adopted wholesale without strengthening basic regulation and adequate governance. Therefore, Indonesia's strategy should be

hybrid in nature, combining strong regulation with market innovation, strengthening governance and Islamic financial education, and utilizing digital technology as a lever for inclusion and efficiency.

The final reflection shows that Indonesia is in a highly promising position to make Islamic finance a pillar of national economic development, not only for Muslims but for society as a whole. By applying lessons from Morocco regarding regulation and governance, along with lessons from Australia regarding market innovation and community inclusion, Indonesia can create an Islamic finance ecosystem that is adaptive, competitive, and forward-looking. Such an ecosystem will become an integral part of a development strategy that is fair, inclusive, and sustainable. This comparative approach provides direction that strengthening Islamic economic institutions in Indonesia must be carried out through synergy among regulators, industry, communities, and technology to realize a financial system that is not only Sharia-compliant but also relevant, resilient, and global.

Conclusion

The main discussion findings show that the institutional dynamics of Islamic economics in Morocco and Australia reflect two different development models but share the same orientation toward creating a financial system that is fair, inclusive, and sustainable. Morocco adopts a state-driven institutionalization approach, in which the government becomes the main actor in establishing regulation, supervisory structures, and legal integration for Islamic financial institutions. Through the implementation of Law No. 103-12 and the establishment of banques participatives, the country has succeeded in organizing a strong, structured, and stable Islamic financial system under the supervision of Bank Al-Maghrib. Then, Australia develops a community-driven adaptation model that grows from the initiatives of the Muslim community through institutions such as the Muslim Community Co-operative Australia (MCCA) and Islamic Co-operative Finance Australia (ICFAL). Although it does not yet have specific regulations for Islamic banking, Australia is able to create a flexible and innovative Islamic finance ecosystem through cooperative mechanisms, ethics-based investment, and community participation. Also, the comparative findings show that the success of Islamic economic institutions does not depend on whether a country is Muslim or non-Muslim, but rather on the extent to which the institutional system is able to adapt to the local social, political, and economic context. Therefore, Morocco's strength lies in legal stability and supervision, while Australia excels in innovation and community participation.

As for the recommendations, this study has limitations because it remains descriptive and has not yet explored quantitative analysis that could empirically measure the impact of Islamic economic institutional policies on economic and social performance. For that reason, further research is recommended to use a cross-

country quantitative approach with indicators such as institutional efficiency, profitability levels, and contributions to financial inclusion. Then, it is necessary to develop a hybrid institutional model that combines Morocco's strengths in regulatory and governance aspects with Australia's strengths in community-based innovation. This model can be adapted by developing countries, including Indonesia, to strengthen an Islamic finance ecosystem that is resilient and adaptive to global changes. Also, it is important to enhance Islamic financial literacy and adopt digital technology (Islamic fintech) to expand service outreach, increase transparency, and strengthen public trust in the Islamic financial system. With these steps, Islamic economic institutions can continue to grow into a system that is relevant, globally competitive, and capable of contributing meaningfully to public welfare.

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