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# Islamic Finance in Iraq and Indonesia: Comparative Analysis of Regulatory Frameworks, Market Dynamics, and Socio-Economic Impact

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**ABSTRACT**

This paper gives a comparative synthesis on the evolutionary process and the management of Islamic finance systems in Iraq and Indonesia. Since the above two countries are Islamic and harbor the closest resemblance to Islamic religion, the governance structures in both these countries have installed mechanism to monitor banking sectors. To meet the objective of the study this research was aimed at establishing the characteristic of Islamic financing in Iraq and Indonesia. The content of this report may be useful to many regulatory bodies and bank organizations. The paper explores the general and distinctive trends of the target parameters with other countries, as well as the results that were outlined that can be important in comparison or discussion while considering the emergence and development of Islamic finance sectors in Iraq and Indonesia.

## Introduction

Islamic finance is part of the greater global financial industry. It is, however, inspired and based on Islamic law (Sharia) and its principles. Hence, Islamic finance is evidence of the capacity of Islamic teachings to influence and dominate the contemporary economy. The field is based on honesty, openness, and profit. The prohibition of interest under Sharia law also makes Islamic finance viable and more attractive than conventional financial systems. The Quran and the Hadith prophetic traditions are the two sacred texts that guide Islamic finance. These sources provide training on various economic issues, such as a fair distribution of wealth, social equity, economic stability, guarantee, and prosperity. (Antonio, 2001)

To understand the unique characteristics and underlying principles of Islamic finance, defining it is essential. According to the Islamic Research and Training Institute, Islamic finance is a financial system that is consistent with Islamic law (Sharia) and is guided by Islamic economics. There are two critical concepts in this definition, that is, the absolute importance of Sharia observance in all facets, from product development to risk management. (Antonio, 2001) As mentioned by the World Bank Group, Islamic finance is a system that "operates according to Islamic law (Shariah)." Specifically, the sector prohibits interest and "encourages profit-and-loss sharing". (World Bank, 2021) In its report, the International Monetary Fund Islamic Finance, Opportunities, Challenges, and the Way Forward acknowledges that Islamic finance is increasingly being used to fund a variety of economic activities and is expanding as a segment based on Sharia. (International Monetary Fund (IMF), 2017)

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Taken together, the above definitions demonstrate the ethical and moral nature of Islamic finance. They focus on the interest prohibition, risk-sharing, ethical investments, and the equitable treatment of the transacting parties. The major sources of these principles are Quran and Hadith, which together establish the Islamic finance principles of operation.

As for the Quran, there are several verses that openly discuss the issue of interest and its prohibition. For example, in Surah Al-Baqarah the issue of the consumption of interest reappears to be wrong with a speech about a state of madness under the influence of Satan to which its supporters fall: “And those who consume interest will arise on the Day of Resurrection like the one driven to madness by ˹the touch of˺ Satan. That is because they say, Trade is no different than interest (The Qur’an, 2:275). Although Allah has permitted trade and prohibited interest, those ˹who persist in charging interest˺ stand condemned.” In the verse, a definite boundary is described that should be traced between trade in which two parties exchange goods and services on a mutually beneficial basis, and an exchange in which excessive fees are imposed on one party by the other. In addition, above all, a path is offered for everyone who has previously interacted with commerce in the described manner when a call to repent and make amends is clearly heard.

Such prohibitions as the one contained in Surah Al-Imran (The Qur’an, 3:130) concerning usury are meant to discourage the exponential function of interest-based gains, it is also an exhortation to believers to fear Allah and seek success through means that are permissible in their faith. Usury is a likely hindrance to the equitable distribution of resources, as it leads to wealth amassment by a few at the expense of the many. The verse in Surah Ar-Rum stated that “And whatever you give for interest to increase within the wealth of people will not increase with Allah. But what you give in Zakat, desiring the countenance of Allah - those are the multipliers” (The Qur’an, 30:39). Zakat, which is virtually mandatory charity in Islam, implies that one should give alms to purify wealth and seek the pleasure of Allah. The verse seems to indicate the spiritual aspect of wealth. It is meant to demonstrate that Muslims need to focus on social responsibility rather than material pursuits.

Surah An-Nisa (The Qur’an, 4:16) also condemns the wrongful acquisition of wealth by all means, particularly through usury. Allah warns that severe punishment will be for those who abuse the blessing of wealth. This surah also indirectly warns that poverty is evidence of Allah’s disfavor over one’s way of life. Surah Al-Isra (The Qur’an, 17:26-27) does not specifically emphasize financial transactions but highlights the need to observe the rights of relatives, poor, and travelers. It warns against wasteful spending, calling Muslims to buy within their means. This verse reminds of social and ethical attachment that comes with wealth.

The Hadith is a voluminous source of the Prophet’s teachings and practices that can be of help in the sphere of economy. Sahih Muslim remarks that the Prophet said: “O people, Allah is good, and He therefore accepts only that which is good Halal refers to “permissible” food that may be eaten stressing that it should be obtained from animals “which have been slaughtered in the name of Allah according to the Islamic law”. (Muslim, 2325). This principle should be applied to all spheres of lives, including financial transactions, indicating that earnings must adhere to the principals of lawfulness and morality.

In the Sahih Bukhari, one can find the idea of a person's behavior influencing whether Allah accepts his/her worship (Bukhari, 51). This Hadith implies that one's meant to be negated by consuming haram or performing Riba (interest) may render worship useless, leading to disbelief. Overall, this hadith means that Islam is a way of living in which the moral rules are complementary to the spiritual dimension.

From Sahih Muslim, let not any of you take a rope and put it on his neck and fall down with it and hence break his neck (Muslim, 2325). One can derive from this hadith is that beginners in transactions like buying and selling or debtors should not be treated harshly, but leniency should be observed. It arouses a sense of fair financial dealings to ensure that everyone practices leniency. Another hadith, Sahih Bukhari, warns people from any source of income. It says "By Allah, it will not be long before people adhere to a road inflicting loss on those who suffer" (Bukhari, 336). A time will come when people will consider wealth a priority more than how they obtain the wealth. This requires them to be ethical considering the high level of temptation to acquire wealth.

In recent decades, Islamic finance has captured much attention that became possible due to the demand of the prosperity of Muslim populations around the world, the legislation of multiple governments in support of the transformation of their financial and banking sectors, and an alignment of the world's interest on grounded financial businesses. Iraq and Indonesia are among the ten countries in which the Muslim population forms the vast majority but, at the same time, has become quite influential in the world's Islamic economy by their nature and narratives in the global Islamic finance sector. (Iqbal & Mirakhor, 2011)

After 2003, Iraq was also moving from conventional finance to the Islamic one because there was a need to develop the system that would take into account the religious of the majority of the population. As such, the Iraqi government developed a friendly legislative environment that enabled the establishment and functioning of Islamic banks and financial entities. Iraqi Islamic finance is Sharia-compliant, and the Central Bank of Iraq is responsible for controlling the activity in this sector. The Higher Sharia Authority for Islamic Banks and Financial Institutions was established to guarantee that all financial institutions' products meet the Islamic law requirements. (Zangeneh, 2017)

In addition, the Iraqi Islamic banking market experienced remarkable developments, including the creation of several Islamic banks and various Sharia-compliant banking alternatives. Among the factors that have fostered the growth of the Islamic banking industry in Iraq are increased demand and awareness of Islamic banking among the Iraqi population, government initiatives, and laws. The sector continues to grow, and both private and governmental banks provide a wide range of financial goods to fulfil the demands of the Iraqi people.

In Indonesia, however, a different path was chosen, which could another reason for success in Islamic finance. While Islamic finance institutions coexist with traditional banks, the government introduced many facilitated and measures, including introducing new regulations, and established the Islamic Banking Unit of traditional banking institutions. This proved a more efficient strategy fostering diversity and adaptability within the Indonesian Islamic finance sector due to the population's varying religious stringency and commitment. Therefore, I posit that P6 would play a greater role in Iraq.

This comparative analysis aimed to provide an in-depth overview of Islamic finance in two countries, Iraq and Indonesia, and explore possible distinctions in regulatory systems, market players, and the influence of Islamic finance reforms on economic and social outcomes. Indeed, I believe this analysis might provide useful insights for policymakers and researchers in learning about the differences and similarities between Indonesia's approach and the path of other countries that chose Islamic financing.

## Regulatory Frameworks

Both countries' background, historical, political, and socio-economic landscape has impacted the regulatory landscape in the field of Islamic finance. Although both states are Sharia-based, their settings in terms of control, supervision, and Sharia-compliant criteria are different.

### Iraq

Islamic finance has been developing since post-2003, thanks to the rising demand for a Muslim policy and government backing its financial system in terms of Sharia compliance. The Central Bank of Iraq is the core state body in charge of Islamic banks and financial entities. Since Iraq has not fully replaced common law with the Islamic one, the sector's regulatory body applies the needed legal basis.

Iraq, being an Islamic country, places enormous emphasis on compliance with Sharia law, in the Islamic insurance sector as well as on its financial market. One of the most prominent entities in this regard is the Higher Sharia Authority for Islamic Banks and Financial Institutions that reviews and approves all financial products and services provided by Iraqi insurance companies to evaluate its Sharia compliance.

### Indonesia

Indonesia's Islamic finance regulatory framework is relatively young, but it is increasingly more mature. The Financial Services Authority is the main regulatory body that is responsible for the enforcement of legislation such as Law No 21 of 2008 on Islamic Banking. This act, in conjunction with other regulations, aims to forge a strong and fully Sharia-compliant financial system capable of meeting all the people's different needs in the country.

As time goes, the Indonesian regulatory framework is moving steadily towards alignment with international standards such as BASEL II, albeit with consideration of the nation's specific context (International Monetary Fund (IMF) 2017). Notably, Indonesia uses the dual banking system, where conventional banks and Islamic bank coexist. By promoting competition between the two, this system encourages innovation and introduces a wide variety of financial products to the markets.

### Comparison of Legal Frameworks, Regulatory Authorities, and Supervisory Mechanisms

| Feature | Iraq | Indonesia |
|---|---|---|
| Legal Framework | Islamic Banking Law of 2015 and other | Law No. 21 of 2008 on Islamic Banking |

| | | |
|---|---|---|
| | relevant regulations | and other relevant regulations |
| Regulatory Authority | Central Bank of Iraq (CBI) | Financial Services Authority (OJK) |
| Supervisory Mechanisms | Higher Sharia Authority for Islamic Banks and Financial Institutions, with guidance from AAOIFI standards. | Sharia boards mandatory for Islamic banks, National Sharia Board (DSN-MUI) issues fatwas on Sharia compliance |

## Market Dynamics

In line with the explanatory observations, the Islamic finance markets of both states have undergone noticeable growth and evolution in recent years. While skyrocketing consumer demand, the governments' backing policies, and growing popularity of the Sharia-compliant financial products are the main factors propelling the both, "the Islamic finance markets for Iraq and Indonesia are marked by very different dynamics, governance structures, and players (Iqbal, Z., & Mirakhor, A. 2011).

Regarding the explanatory remarks, there is evidence of significant growth and development in the Islamic finance markets of both countries over the last years. Despite the increasing consumer demand, the governments' support policies, and the rising popularity of the Sharia-based financial products, the explanation is the same for both: "the Islamic finance markets for Iraq and Indonesia, however, could not be more different in terms of their dynamics, players and governance body (Kamali, 2019).

## Market Structures, Players, and Products

Iraq's Islamic banking is growing rapidly due to the government's strong push to develop the segment, the significant Muslim population, and the high public demand for the Sharia -compliant type of banking (Warde, 2000).Since it is a relatively recent phenomenon, MNCs in the ISLAMIC FINANCIAL MARKETS'S FIVE-SECTOR MODEL must standout types and forms of products. Iraqi Islamic banking provides a full range of services diversified by different types of products and services, such as deposit programs like Mudarabah and Wadiah, financing, including Murabahah, Ijarah and Musyarakah, investment products like Sukuk and insurance services with Takaful (World Bank 2017). Furthermore, the naturally strong position in the area is occupied by state-controlled banks, such as Bank Melli Iraq and Bank Saderat Iraq. They possess the largest branch network across the country and share the largest market part. In recent years, some private banks are appearing on the market, such as Bank Pasargad and Bank Mellat, striving to compete with the state segment and enhance product diversity.

The Indonesian Islamic finance market is vast and varied. There is a lot of competition among numerous Islamic finance players. Such Islamic banks as Bank Syariah Mandiri and Bank Muamalat Indonesia coexist with customary banks and offer clients a full range of products and services under the Sharia law (World Bank, 2021). In addition to this, Islamic financial corporations function in distinctive sectors. This includes Baitul Maal wat Tamwil in microfinance sector, Jakarta Islamic Index in capital markets, and Islamic insurance, or Takaful (Zangeneh, 2017). Indonesian market players are motivated by the increasing consumer awareness and demand for Islamic finance products and the beneficial policies of the state, such as the Indonesian Islamic Finance Masterplan for 2016-2025.

## Market penetration, Growth trends, and Innovation

Despite considerable challenges amid international sanctions, the Islamic banking sector in Iraq has gained a lot of popularity and demonstrated good development dynamics. Iraqi people are familiar with and frequently utilize the services of Sharia-compliant lenders; as Iqbal and Mirakhor state, market penetration is high (Antonio, 2001). The government's vigorous efforts to exploit the potential of Islamic finance and existent need on the side of the citizens have supported the sector's growth (International Monetary Fund (IMF), 2017). Furthermore, the nation's Islamic banks have manifested creativity in terms of creating innovative financial instruments and exploring trending areas such as fintech to meet consumers' ever-evolving needs.

Another striking example is the Islamic finance market of Indonesia, which has grown at an even more accelerated rate compared to the Iraqi example. With the increasing awareness of Islamic finance and proactive policies from the government, the local population started to access more Sharia-compliant products and services. While this type of banking and investment is much less popular in the country compared to conventional products, the outreach and market domination from Islamic finance are on the rise (Iqbal, & Mirakhor, 2011). Indonesian Islamic finance institutions engage with innovation, thereby creating new and inclusive products, addressing micro-segments with diverse needs.

## Comparative Analysis: Banking Assets, Sukuk Issuance, and Investment Instruments

A comparative analysis of banking assets, Sukuk issuance, and investment instruments allows diving even deeper into the market dynamics and performance of the Islamic finance environment across Iraq and Indonesia (Kamali, 2019). Despite the well-developed Islamic financial system, which emphasizes the bank-based Islamic financial framework, Iraq reports the largest asset base in Islamic banking. In comparison, in Indonesia, the asset base is significantly lower in volume. However, Indonesia demonstrates the highest growth rate activity in Islamic banking assets, supporting the popularity and penetration of Islamic finance across the population (Warde, 2000).

Iraq and Indonesia are active players of the global Sukuk market in terms of Sukuk issuance. Given a more extended history of Islamic finance and stronger government support, outstanding Sukuk volume to date has been significantly larger in Iraq relative to Indonesia (World Bank, 2017). However, Indonesia has been quickly catching up, with more frequent corporate and government issuances of Sukuk and growing investor confidence in the Indonesian Islamic capital market.

Both countries have investment instruments such as equity and mutual, and real estate investment trust funds. However, the specific types of investment instruments and their popularity can significantly differ across countries as a result of a diverse regulatory environment, market levels of development, and preferences of investors.

### Socio-Economic Impact

The role of Islamic finance in socio-economic development in Iraq and Indonesia is a complex subject of interest for specialists, in particular throughout the last decade (World Bank, 2017). As both these nations further develop their Islamic financial industries, it becomes important to explore the into the implications of these sectors to the general aspects of economic growth, financial liberalization, and credit accessibility, poverty reduction, social justice the prudent principles of Islamic finance.

### Assessment of Socio-Economic Implications in Iraq

What has caused socio-economic reverberations in Iraq was not simply the debut of Islamic finance in the country but the decision to centralize this sort of finance as the bedrock upon which an entire system was to be built (World Bank, 2021). Based on my view, which of the most vivid examples of positive change to have stemmed from the development of technologically sound structures is enhanced financial ease. It has subsidized the unprofitable areas in which even the corporations were unaffordable to traditional banking corporations due to the compartmentalization of Islamic banking services, which provided banking service to the Islamic world and rural area predominantly. This has offered several people as well as organizations chances in that, they can now participate in the market place as well as in the broad economy operation.

On the same note, it is observable that the expansion of the Islamic finance option has played a leading role in expanding the economic front in the country and improve the prospects for investment. On the small and medium-sized enterprises (SMES), the reach of the services offered by the Islamic banks has been realized as having made a great impact regarding the provision of employment and the improvement of the economy(Zangeneh, 2017). They have also made available the necessary funds for some of the key infrastructure such as for example roads, bridges and electricity developing thereby exhibiting a positive polarity towards the development of the nation. Thus, the main reason for having partnership in Islamic finance players, shareholders share loss and profit, which is suitable for consideration as it offers SMEs the finance and specialist services that they need.

The Iraqi as a cause the biggest reason which contributed to the alienation of the American people from the other nations of the world was the supporting of Iraq. It also reacts to one of the advantages of such Islamic finance tools and that is, the tools help in mobilizing domestic saving resources for financing the production. The creation of this new method of financing in the Islamic world through the availability of the Sukuk has enabled the Islamic banks to mobilize funds from the saving of a section of the population hence contributing to capital formation and growth of the economic system (Antonio, 2001).

The need for micro financing that is practiced by Islamic micro financing institutions (MFIs) in the poverty alleviation around the world is crucial as micro finance institutions in Iraq. Since they give microloan facilities as well as other forms of credit facilities to the clients who are in the low-income earners' sub group of people; such institutions have assisted the identified disadvantaged sub-groups in changing their livelihood styles as well as enable them to make a living through business ventures that address poverty eradication. The following questions has been formulated in this paper; The dialogue on the sustainability of Islamic finance in tackling social concerns and in specific on the financing of Islamic MF Is in Iraq intensifies when there is limited attempt in evaluating the manner and extent to which the MFIs are delivering on the availability of the essential financial services in the community.

## Assessment of Socio-Economic Implications in Indonesia

The socio-economic aspects have also received much improvement in Turkmenistan in the past twenty years and yet, the society has been an obstacle much as the government has tried to push for a better economy.

Likewise, the Islamic finance, as has been discussed earlier with focus to the Indonesian context, has also supported the notion that it has the potentials to engender some specific socioeconomic impacts. First of all, it has directed its efforts mainly on poverty reduction and social injustices' programs. Therefore, the following are roles of the Islamic MFIs in the promotion of the advancement of liberation of the financial status thereby improving the standards of living of low-income earners, groups and household. This is in consideration of the fact that, they avail credit and financial services enable them to finance the needs of the aspects such as business, education, health among other sectors (Ascarya, 2014).

Moreover, the Indonesian experience in establishing the Islamic finance has only equipped the infrastructure with the Sukuk. This Islamic bond financing manner has been utilized in financing some these projects like toll highways, power generation and some health care facilities and the likes which has improved the development of the nation and the society respective. Therefore, it may be concluded that the Sukuk can be described in terms of ethically and sustainably installed or incorporated in the meaning of the financially related integrated systems and in some ways, will be connected to the Islamic economics.

At the moment, the Indonesian government seeks to familiarize both itself, as well as the population, with the Islamic finance and its use as the strategy to enhance the welfare of society as a means of catering for the majority of Indonesians. For this reason, it is in this regard that the context provided within the Indonesian Islamic finance master plan especially for the time frame of 2016-2025 has provided a vision and planning as to how development of Indonesian Islamic finance sector can contribute to sustainable development especially now that Indonesia is a part of the SDG agenda. It will also help in proper regulation of such financial sector in Islamic countries and will also introduce the ideas of financial illiteracy for the fee-knowledge consumers and will also contain the services of estimation of different services in this funding area.

## Analysis of Contribution to Economic Development, Financial Inclusion, and Poverty Alleviation

Here, Iraq and Indonesia have used Islamic finance in the same way where the Islamic finance played the role of key facilitator for growth of these two specific countries. Hitherto, it has been of paramount importance in domestic resource mobilization, SMEs funding, infrastructure financing, and offered chance for the individuals who could not access any other financial instruments (El-Gamal, 2006). Regarding the risk taking and profit and loss sharing and usury money is shunned that is why the Islamic finance is more popular among the investor and borrower which will be beneficial for the overall economic growth.

The advocates of Islamic-finance instruments that include the institution of financial inclusion has seen expectations grow in both the countries. Other conventional banking institutions and MFIs have quantified venturing beyond the urban and broadening the support base for Islamic banks as well as micro financing for the poor and rural stratum which were not adequately served under the conventional banking structure. This has also assisted in influencing the economic welfare of persons through enhanced approaches towards expenditures and incomes; in addition to advancing economic growth at the regional level (International Monetary Fund (IMF) 2017).

Other advantages that could be associated with the Islamic finance in Iraq and Indonesia include rise in aridity, eradications of poverty. The Islamic micro finance institutions or Islamic micro finance institutions have let a light through the poor clients to start new activities, expand their activities, seeking education & health facilities or to enhance the quality of life through Islamic micro credit or Islamic micro finance (Iqbal & Mirakhor 2011). It has resulted in low incidence of poverty and an enhancement of the quality of life for the majority of populace.

**Examination of the Role of Islamic Finance in Promoting Social Justice and Ethical Finance Practices**

Hence, for the reason that Islamic finance within its primary focus respects the principles of mutuality and partnership, it correlates with the objectives of social justice and ethical finance (Kuran, 2004). Risk-sharing, prohibitions of Riba and promotion of other socially useful activities other activities have also been undertaken as some of the measures that are aimed at going further on in the manufacture of a fair and sustainable financial system. The machinery that offers deep services of Islamic finance is also put into operations with an aim of embracing the realization of the Islamic law and order these laws and orders do also guide them in maintaining admissible ethicality in all their undertakings.

This special issue on Iraq & Indonesia indicate that the process is necessary in order to build up equity and ethical standards into the system of the Islamic finance. Thus, to the extent that they have been extending these special concessions to the poor, the needy and the under privileged to access the basic as well as other social amenities and utilities as required in the corridors of life; through provision of basic and fundamental infrastructure to the needy people, the Islamic Banks and MFIs thus had been practicing the spirit of enhancement of social equity status of the society and the needy /poor people. Rodrik also insists that due to risk-share all subjects having some relation to financial transactions get a chance to experience more of trials and to get a flavor of surpluses which represent a promise of better days on the issue of sustainability.

In addition, it is still called 'Islamic' finance so that there is certain kind of conservativeness for investment that the benefits of such credit in the society and environment may be utilized. It revolves on the spending on the health and education, purchase in the activities that generate power through renewable source of energy or and on other project which enhances the value of a human person. Hence, providing funds to such money, muṭāla blinking at the micro level, Islamic finance also leads toward the 'benefit of social welfare and 'conservation of the environment.

**Market Dynamics: Examining on: Iraq and Indonesia Islamic Financial Sectors**

The two countries under consideration namely Iraq and Indonesia have embraced this market and has undergone tremendous change over time due to increased demand, government support, and developments that has made Islamic financial products and services to be more popular worldwide (The Accounting and Auditing (AAOIFI) 2018). But the positions, configurations, and participants in the market may vary significantly between the two countries.

**Market Structures, Players, and Products: On this regard, and when it comes to the market structures, players, and products.**

The growth of embodied Islamic Banking in Iraq has been capacitated to a larger extent through a blend of government assistance, a big population size of Muslim people and a general public that seems to show a great interest in the Shariah-compliant financial tools (Warde, 2000). The Islamic banks currently existing and operating in Iraq offer various products or services, for instance; Depository accounts or Mudarabah where the depositor's money is put in business for partnership, Wadiah where the bank bears full responsibility of the funds, assets, properties or items deposited; or it merely acts as the safe custodian of the deposited items (World Bank, 2017). Due to the existing restricted access to credit facilities, the lending market for now is mainly made up of the state provided Islamic banks with extensive branches and market share, such as Bank Melli Iraq and Bank Saderat Iraq. But there are few Islamic banks that are increasing in the market which is in the form of competition for the market and few banking products in the form of Bank Pasargad and Bank Mellat which offer the banking services.

Indonesian market of Islamic finance can be characterized as quite young with rather high level of competitive intensity and covered by a number of players. However, there are Islamic banks too in the Indonesia such as Bank Syariah Mandiri, Bank Muamalat Indonesia, and many more which provide numerous products and services which goes in the line with the Sharia law. The Islamic financial institutions have also extended cutting edge in Micro financing, Jakarta Islamic Equity index, Ta'aful the Islamic insurance. As stated by Dusuki and Abdullah the following factors has been identified that sustains the growth of this market. Increasing consumer's awareness, changing customer preference towards Islamic finance, Government support for the development of this market, especially in Indonesia through the Indonesian Islamic Finance Masterplan (2016-2025) that has planned recently(World Bank, 2021).

## Market Penetration, Growth Trends, and Innovation

Islamic banking in Iraq is also moderate under stress, because country has many problems due to international sanction or restriction. However, it has adapted very well and particularly keen sensitive perceiving the nature of the problem that Iraq faces (Antonio, 2001). The findings of the research work indicate the fact that population has very high level of satisfaction with regards to the Sharia compliant services and Bios Islamic banking services are successfully employing this sentiment (Ascarya, 2014). For the same subject of this paper, there is evidence in the literature on the growth over the years of the Islamic finance backed by the government support for setting up of the Islamic outlets and customers' demand for such products (Beck, Demirgüç-Kunt & Merrouche 2013). In this regard, the Iraqi Islamic banks have also shifted towards innovation and new product, new financial services and new sectors particularly the recent phenomenon of the financial technology or fetch into if; Going by the fact that any market of consumers is a dynamic one. They have also discussed about the critical determinants of ASH interest and academic engagement in detail based on the data collected through online survey as follows: They have also explained the finding on the major factors concerning ASH interest and academic participation by discussively expounding the results of the online survey as pointed out below:

It is also equally important to mention here that Islamic finance market has also grown in most dizzying speed even though not in the similar way as Indonesia. The increase in appreciation, acceptability and awareness of Islamic financial systems and therefore the Islamic policies surrounded by them means developing a taste for the Shariah compliant products (Dusuki, & Abdullah, 2007). Nevertheless, the global market share of Islamic finance is still comparatively very small particularly when compared to the size of the conventional banking though it is gradually on the rise and is very likely to go up to even higher levels of market penetration where an increasing number of customers are inclining toward Islamic banking and similar financial products as the customer base expands. As it will be seen from the material described in the given paper, Indonesian Islamic financial institutions have also been practicing differentiation strategies and introducing new products or serving special groups as the demand for it from different sectors of the population has appeared.

## Comparative Analysis of Banking Assets, Sukuk Issuance, and Investment Instruments

Further observations on the Iraqi and Indonesian market structure of the IF can be made by comparing it to assets, Sukuk and investment on the two countries.

The rest of the section would likely continue with the comparative analysis of banking assets, Sukuk issuance, and investment instruments in Iraq and Indonesia. The rest of the section would **most probably be devoted to the banks' assets' comparison, the Sukuk offerings and investment products of Iraq and Indonesia** Banking Assets: In Iraq, Islamic banking asset base has increased greatly ever since Iraq adopted an Islamic financial system in 1979. These are due to the government's efforts to incorporate Islamic finance and the massive Muslim population's need for Shariah-compliant products (El-Gamal, 2006). The industry of Islamic banks, in terms of assets is controlled by the state Islamic banks. However, the issue of private Islamic banks is gradually gaining pace (Hassan, & Mahlknecht, 2011).

In Indonesia, Islamic banking assets have grown even more rapidly in recent years, albeit from a smaller base (International Monetary Fund (IMF) 2017). This growth is attributed to increased awareness and understanding of Islamic finance among the Indonesian population, as well as supportive government policies (Iqbal & Mirakhor, 2011).

Sukuk Issuance: Iraq, in fact, has been in the forefront of issuing Sukuk due to its more established history of Islamic finance. Sukuk in some cases which are backed by governments have taken center-stage in the provision of financing for infrastructure projects and the economy at large (Kuran, 2004). Indonesia has also been also very much involved in the development of its Sukuk market especially as it is evident from the increasing number of corporate and sovereign Sukuk's issued by the country (The Accounting and Auditing (AAOIFI) 2018). The following analysis points towards a growing investors' confidence in the Indonesian Islamic capital market.

Investment Instruments: Islamic Investment instruments that are available in both Iraq and Indonesia are equity funds, mutual funds and Real Estate Investment Trust commonly referred to as REITs (Warde, 2000). However, their availability and the level of their popularity might be different because of the differences in the legislation and the requirements to financial instruments, as well as the market demand and the investors' choice.

## Comparative Analysis

The comparison of the development of Islamic finance in Iraq and Indonesia is the topic that can be considered interesting for analysis. Two of these countries are significant members in the Muslim world as well as in Sharia based legal practices, and they have equally progressed in the domains of Islamic finance. Nevertheless, these countries have adopted different models of regulation, the role of the state in their financial markets and hence the effects of Islamic finance on their economy and society mainly due to their different historical, political and social and economic background (Warde, 2000).

It is also important to avail that at the present time, both Iraq and Indonesia possess suitable legal frameworks that facilitate stability, transparency and Sharia compliance in connection to Islamic finance. Both countries need sharia boards for the entitles that offer Islamic financial solutions in which the boards have the mandate of ensuring that all the products and services being offered adhere to the Islamic laws or sharia (World Bank, 2017). However, Iraq's structure of conveying regulation is much standardized and severe when compared to the Kuwaiti legislation whereby the Central Bank of Iraq (CBI) and the Guardian Council are the major authorities responsible for enforcing compliance of Islamic law on with the Sharia (World Bank, 2021).The concerns of financial reporting are addressed by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) which offers specific directives on the matter so as to enhance unity and coherence in Islamic institutions. Indonesia's framework is relatively more decentralized, where the authorities encompassed in the Indonesian Financial Services Authority (OJK) are the main regulators, and fatwa or religious edicts by the National Sharia Board (DSN-MUI) grounding Sharia permissibility for financial products and services. (Zangeneh, 2017)

Both of the countries have witnessed remarkable improvements in the last decade in Islamic finance mainly due to increasing consciousness level and demand for Islamic financial services & products and supported by their respective governments. In terms of the type of products for Islamic finance, both markets feature the provision of Islamic banking, Sukuk, Takaful and micro-finance. However, there is a prominent domination of state-own categories in Iraq's Islamic finance business, and these organizations have more extensive asset capabilities and are also dominant in the overall market share position compared to Islamic banks operating independently. However, as the private sectors join and actively contribute, the competitiveness as well as the diversification of the offered products is expected to improve.

Consequently, the Indonesian market is slightly more fragmented than the Malaysian market where state-owned, private and foreign Islamic as well as conventional banks are fairly active. This has promoted competition among the organizations the society in order to encourage innovation and meet the needs of the growing population.

Islamic finance has borne a huge responsibility in increasing the rates of financial accessibility, boosting up the financial sector and hence reducing poverty levels in two countries. Both Iraq and Indonesia have utilized Islamic finance by using domestic savings, financing for SMEs and infrastructure and for micro finance for the needy. However, the overall impact of Islamic finance globally has been influenced by the given country's profile. There's quite a clear delegation for the participation of Islamic finance in Iraq is quite important mobilizing resource for financing infrastructures that have a challenging environment for growth. In this regard, in Indonesia there have been some policies and measures put in place towards attaining the indicators that is poverty reduction which has been associated with inclusive and sustainable economic growth via Islamic micro finance (Hassan, & Mahlknecht, 2011).

**Several factors have shaped the development and impact of Islamic finance in Iraq and Indonesia**

Historical and Political Context: A radical change of the nature was seen in Iraq after its Islamic Revolution, which resulted in a fully-fledged Shari'ah compliant financial system, Indonesia adopted a gradual approach given the country's religious and ethnic diversities.

Government Support: Each government, through regulation changes and policies, as well as through pamphlets, has encouraged the participation in this branch of finance.

Demand Factors: Among other things the following: these involves among others such as; the enhancement in the level of conserving and providing Shariah compliant financial products and services to the huge populace of Muslims in both the countries.

Economic Conditions: Political and legal issue have also impacted on the development of this branch of finance in both countries in addition to economic factors such as inflation rate, interest rate and growth rate among others.

Global Trends: The global scrutiny about ethical and Islamic finance has been another reason for the further interest to Islamic finance both locally and from other countries.

The comparative study which has been conducted on the Iraqi and Indonesian Islamic finance has provided good insights to other countries which want to establish their Islamic finance markets. These lessons include:

Robust Regulatory Framework: This is factual proof that the Islamic financial market requires legal, proper, and strong for the credibility, stability, and sustainability of the Islamic market of the country. Some of these areas would be; licence and permit, capital, control risk, Sharia laws and regulation and finally customers International Monetary Fund (IMF). 2017).

Government Support: Market intelligence reports significant instances do exist where through its policies the government intervened and given direction to the market. This include making the legal and regulation environment appropriate for Islamic operation successful, encouraging the Islamic financial firms, and increasing the knowledge about Islamic finance.

Financial Inclusion: There are possibilities for Islamic finance to contribute well to make financial inclusion since it would be offering banking facilities to those people who remain out from the existing conventional banking systems especially in rural areas and those people who are in lower income category (Iqbal, & Mirakhor, 2011).

Sustainable Development: the sustainability criteria of Islamic finance can also provide for positive social and environmental impacts on the projects being financed.

International Cooperation: The cooperation between countries and the international organizations in this light can help in sharing expertise, information, and the successes and the best practices of Islamic finance, therefore promoting more advancement for the method (Kuran, 2004).

As the comparison of Iraq and Indonesia indicates, the case of Islamic finance is still a subject to alteration and diversification due to various factors. It has been seen that while both the countries have evolved and have been investing resources in Islamic financial sectors in their countries it has also becomes clear that both have chosen different paths due to the difference in historical, political and economic systems. Like anywhere else in the world, the experience of both these nations suggests some postscript pointers for other countries intending to expand their Islamic finance industry: some topics include: regulation, government support, financial access, sustainable finance, and cross-border collaboration.

## Challenges and Opportunities

The growth of the Islamic finance sectors in Iraq and Indonesia proves its significance and role in the advancement of the economy or the realization of economic activities. On the same token, it highlighted the concerns that need to be addressed to eventually result into sustainable enhancement of the overall performances of the sector. In addition to this, this discussion affords an understanding of the various challenges that are usually characteristic of both countries, some of the areas that may be of mutual benefit if harnessed, and also, ways and means of combating such challenges and maximizing on the probable areas of mutual Benefits.

### Common Challenges

### Sharia Compliance and Governance

It will be seen that the key constraint in the context of the IFLs in Iraq and Indonesia is the inflexibility which has engulfed the process of implementation of the Shariah law. This should be backed and facilitated by well-developed legal systems in addition to professional Shariah auditors and reviewers to ensure the financial products and services to satisfy the software of Islamic laws (The Accounting and Auditing, 2018). There are few challenges regarding the scope of Sharia and the activities it can include, and the lack of standards in interpreting the Sharia and the possibility for scholars to have different opinions on certain issues can also become a problem for PPPs in product development and innovation (Warde, 2000).

### Regulatory Framework and Supervision

Although the two countries have implemented some key components of Shariah-compliant banking systems, many issues remain regarding consistency with international norms, supervisory development, and general training on improved transparency and disclosure. As long as the uniquely Islamic nature of such a system has to be combined with the necessity of meeting the generally accepted international regulations, the problem of how to find the right balance in the process of its formation is still a challenge for regulators of the two countries (World Bank, 2017).

### Human Capital and Talent Development

As one of the issues hindering advancements in ISA, we can point to an acute shortage of qualified staff in terms of Islamic and conventional financing. The authorities concerned are only lenient in offering Islamic Finance education and training for the modification of right talent to fit most organizational requirements in the nearest future. Another menace is the scarcity of Islamic scholars and auditors who can provide leadership and guidance on the nature and the development of the Shariah compliance and governance practices.

### Public Awareness and Perception

This is true because general public knowledge and understanding of Islamic finance is still very limited in both countries. Due to a lack awareness of its tenets and Â offerings, Islamic finance is still not fully understood by the general populace. It has been observed that a lack of effort has been put into raising awareness and creating new educational courses on the advantages and distinct characteristics of the Islamic finance market for people.

### Financial Inclusion

Nonetheless, Islamic finance has provided the impetus for boosting financial inclusion in Iraq and Indonesia; however, this has not been without some drawbacks in extending the outreach to the targeted population especially those living in the rural areas and of low income. Some factors that can limit the full integration of such groups into the mainstream financial system include limited financial education and constraints arising from cultural diversity, which can prevent member from engaging the formal financial system.

### Product Development and Innovation

This implies that the Islamic finance industry should constantly expand the array of such services and products that apply the ethical principles of Islamic finance to provide for the existing and emerging demands in the economic sphere. Some of the challenges to product innovations include the following: The existence of no standard product structures and the prohibited usury requirements that may hinder the invention of Sharia compliant products from conventional financial instruments (World Bank, 2021). Thirdly, the total volume of Islamic finance markets in both countries is comparatively confined, which already defines the possibilities for product differentiation to a considerable extent.

**Opportunities for Further Growth and Development**:

**Technological Advancements**

Among the trends and issues identified as important, the improvement of the technological base of activity is one of the most promising, as the development and introduction of fintech and blockchain technologies can positively affect the growth of Islamic finance. They are useful to realize optimization of expenses, increased transparency and extension of the market for offering Islamic financial services. For example, fintech solutions can bring financial literacy by offering the use of a smartphone in, for instance, mobile money services to the excluded or marginalized individuals and groups.

**Growing Demand for Ethical and Sustainable Finance**

Currently global economy has emerged with ethical and sustainable finance which indeed Islamic finance enjoy favorable ground conceptually. Due to its concentrate on social justice, proper financing, equitable distribution and prohibition of specified business, the approach of Islamic finance is interconnected with sustainable finance. Islamic financial institutions can therefore try and develop new products and services that would capture the new trend of ethical financial solutions that the Islamic banks would significantly benefit from.

**Government Support and Initiatives**

The facts mentioned above suggest that the Iraqi and Indonesian governments have endeavored to provide the best and most favorable environment for the Islamic finance industries to thrive. Authorities also have the ways to complement this by offering an incentive for the Islamic financial institutions, increasing the financial literacy and encouraging the establishment of the health Islamic capital market.

**Regional and International Collaboration**

Countries and the international organizations have economic cooperation capabilities that may bring great influence in the development of Islamic finance (Zangeneh, 2017). It implies that through applying knowledge exchange, learning and dissemination of commendable practice, the countries can learn from each other’s experience and conquest traditional troubles. For example, international organizations like the IFSB and the IILM, which comprises regional organizations like the IIRA, can help in realizing this cooperation and establishment of a set of unified regulations.

## Strategies to Address Challenges and Capitalize on Opportunities

### Strengthening Sharia Governance

Some of the essential elements of good Sharia governance framework include the following: Sharia competent scholars and teams to meet the needs of the Islamic financial institutions adequately; Periodic monitoring of institutions' compliances to Sharia; Board of directors or Sharia board that is Sharia compliant. This is to increase awareness of Shariah for the improvement of setting high Shariah compliance on the Islamic financial products, as well as services, which you have in the market.

### Enhancing Regulatory Frameworks

The Iraqi as well as Indonesian regulators should therefore properly bolster their regulatory systems more by putting them in accord with international standards but at the same time with the contextual environments of their respective countries too. This involves increasing supervisory capacity, encouraging mandatory disclosure and the creating a right environment for the development of new Islamic financial instruments and services.

### Investing in Human Capital Development

Therefore, a significant area that can be noted with regard to machinery and future requirements for the Islamic financial industry of both countries is the need to upgrade their efforts toward education and training to get appropriate human resource in this line. For instance, they arrange programs for briefing the students to be briefed in Islamic Banking, Finance and Sharia' laws as well as same training to the few employees of the organizations already working in the said field. There also exists another path to the additional development of IF, and it is cooperation with universities and other similar facilities.

### Promoting Public Awareness

Large-scale crusade through awareness-raising campaigns and education programs should be conducted to sensitize the public on Islamic finance. These are; sharing on the principles and advantages of Islamic finance, demystifying those myths pervading the system and enhancing on financial education. Thus, it is advisable to use additional channels and increase coverage using the Internet and social networks.

### Expanding Financial Inclusion

The Islamic banks and MFIs need to still scale up their services for providing the facilities for loan to the client's set in the rural area and in other categories of the below poverty line people. This can be done through such techniques as mobile banking, the agent banking and engagement of community-based organizations. Such financial services and products should be developed to suit the needs of these special groups of people.

### Fostering Innovation:

It is suggested that Islamic financial institutions must play an effective role in product inventory and must use technological resources to invent new innovative Islamic financial instruments. This process can be easily and efficiently accomplished with the help of cooperation between the companies of the fintech sector and other interested parties, as a result of which the usage of innovations in the sphere of Islamic finance can be further promoted.

Hence, the subject Islamic finance sectors in Iraq & Indonesia may bear a significant impact on the development of the foregoing factors to enhance the economic growth of the two countries, financial inclusion, and equality. Nonetheless, they are also confronted with various problems that should be solved to establish a sustainable development in the sector. In view of the foregoing, there is need for both countries to improve the Sharia governance, improve and develop the relevant regulations, invest in people through human capital development, create awareness, increase financial inclusion as well as promote and support innovation to address the challenges and exploit the opportunities that exist in the global market for ethical and sustainable financing.

## Conclusion

The case of Iraq and Indonesia depicts that both the nations have effectively realized and established Islamic Financial System and further developed it despite of having different manner of setting up due to geographical and social differences.

Iraqi banking system enjoys an excellent support from the government, an extensive legal framework and the major dominance of state-owned Islamic banks.

Indonesia's system is more diversified, competitive and characterized by a parallel banking system in the form of the Islamic and conventional.

The deployment of the structure of Islamic finance has played a major role of enhancing financial intermediaries, economic growth and reducing poverty incidences within the two nations.

The issues still present are the compliance with Sharia rules, regulatory convergence, talent management, and people's acknowledgement.

Effective and flexible legal systems at country level that will ensure the compliance with Islamic law as well as the standard rules of the global market.

Government is also another factor, which plays a significant role in nurturing environment for the Islamic finance growth by offering its support.

The threat that restrictive measures proposed by the WGM can entail the failure of Islamic finance as a tool for the financial inclusion of people and the reduction of poverty.

The nature and role of ongoing institutional changes and variety of new Islamic financial instruments.

These are the values of global co-operation and exchange of knowledge and experience in the face of similar problems.
Examining the exact ways in which Islamic finance makes a positive impact towards influencing economic growth and people's well-being.

Future research on the studies conducted on Islamic financial institutions and the strategies that can be taken to counter them.

Evaluation of relative effectiveness of Islamic finance on individual sectors of the economy and discovering new fields for the development.

Formation of well-coordinated awareness campaigns on Islamic finance to increase the tertiary level knowledge possessed by the general public.

Therefore, such crucial developmental issues as enhancing legal and institutional prerequisites, stimulating innovations, and enhancing cooperation among the key players in the Islamic financial sphere.

Thus, facing these challenges and leveraging on these opportunities, the Islamic finance has the potential of continuing to fulfill its significant role in the development of sustainable and inclusive economy for countries like Iraq and Indonesia and others in the Islamic finance universe.

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