
The Impact Of Zakat Accounting Standard (Safs Sharia No.109) On The Performance Of Zakat Institutions In Indonesia

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Abstract

This paper aims to examine the influence of accounting standards (SAFS Sharia No.109) for zakat on the financial performance of zakat institutions. This study has employed Difference in Difference (DiD) test and Panel data regression in order to achieve the objective of study. This study found that there is a difference in zakat institution performance between the pre and post adoption of SAFS in the DiD test. However, panel regression results show that there is no significant change in the adoption of SAFS Sharia No.109 to the zakat institution financial performance. A plausible reason for insignificant relation is that SAFS Sharia No.109 has not yet faithfully adhered by zakat institutions in their reporting, particularly with respect to the zakat for productive purpose (Alim, 2015). On the other hand, this study also found that zakat fund collection and zakat institution equity have significant impact on the performance of zakat institutions in Indonesia.

Keywords: *Sharia SAFS No.109, zakat, zakat institution, zakat accounting standard*
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1. INTRODUCTION

Zakat institutions play an essential role in Muslim-majority countries. This is evidenced by the contribution of zakat funds to economic growth (Yussof & Densumite, 2012). The amount of charity fund collected by zakat institutions across the globe are growing significantly and has contributed to reducing the burden of unprivileged communities (Beik, 2009; Hassan & Noor, 2015). For instance, in Indonesia, Al Parisi (2017) mentioned that the potential of zakat funds had reached IDR 286 trillion or equal to USD 20, 46 billion. However, the actual zakat fund collection reached only IDR 3.7 trillion in 2015, which is the equivalent of USD 265 million. Such a large collection would have significant and far-reaching implications for funding activities and financial reporting.

The financial reporting standard for zakat institution is regulated by the Indonesian Accounting Association (IAI) in the compilation of financial reporting standard namely “Sharia Standard for Accounting and Financial Statement” (Sharia SAFS). Generally, it contains financial reporting standard for Islamic financial transaction such as *murabahah*, *mudharabah*, *musyarakah* and etc. Later on 2012, the IAI issued Sharia SAFS for zakat (Rahman, 2015; PAAZ, 2012). It is issued by IAI as a response to the rapid development of Islamic financial institution, including zakat institutions in Indonesia and the absence of financial reporting standard for zakat institution. Further, the issuance of Sharia SAFS for zakat which stated in Sharia SAFS No. 109 is also following the recommendation from Indonesian *Ulama* (Muslim scholars) council (MUI), where the MUI have requested zakat institutions to be more transparent with their beneficiaries (*muzakki* and *mustahik*). In this regard, they issued a *fatwa* (advisory opinion) encouraging IAI to issue SAFS Sharia for zakat (Nurhayati & Wasilah, 2013; as cited in Rahman, 2015, Sharia Standard for Accounting and Financial Statement, 2012).

In general, the SAFS for non-Islamic financial institution itself was adapted from International Financial Reporting Standard (IFRS). IFRS was issued by the International Accounting Standard Board (IASB) in 2009. The SAFS is adopted from IFRS in 2012 and then it was adopted by firms in Indonesia following advice that issued by Ministry of Finance of Indonesia (Sianipar & Marsono, 2013 and Aprilicia, 2014). However, in the context of Sharia SAFS, it is quite different with SAFS for non-Islamic financial institution where it combines the sharia principles and principles of financial reporting standard from IFRS, considering that the committee of Sharia SAFS issuance is including the representatives from Islamic financial institution practitioners, IAI and MUI (Sharia SAFS, 2012; Mulawarman & Kamayanti, 2018).

In observing the significance of zakat financial reporting standard to zakat institution performance, this study aims to investigate the influence of Sharia SAFS No.109 adoption to the performance of zakat institution in Indonesia. This study contributes to expanding the body of knowledge as well as practical ideas which may guide practitioners and policymakers in their policy development for improving the accountability and transparency of zakat institutions in Indonesia. This study also adds to the literature of zakat institution management by providing empirical evidence on the effect of SAFS Sharia No. 109 on zakat institutions’ performance.

This study is also unique, since there have been limited studies that discussing the impact of zakat accounting standard to the zakat institution performance, since it is very hard to collect the annual zakat institution financial report. We note only Megawati and Trisnawati (2014) and also Shahnaz (2016) who discussed the implementation of Sharia SAFS No.109 in Indonesia.

2. LITERATURE REVIEW

The Theory of Zakat

Zakat literally means “to grow” or “to increase”. In Arabic language, the root of zakat means cleanliness, growth, blessing and praise (Qardhawi, 2009). Abd. Wahab and Abdul Rahman (2011) define zakat as purification of something from dirt or filth. Further, Hafidhuddin (2002) defines zakat as *al barakatu* (blessing), *al namaa* (rise and growth) and *ash shalahu* (praise). Further, in the light of Islamic law, Qardhawi (2000) defines zakat as the share of wealth prescribed by God to be distributed among deserving categories (*asnaf*) which consist of: the poor, the need, the administrator of zakat (*aamil*), those whose hearts are inclined towards Islam (including new Muslim), the slaves, debtors (debts due to real needs), *fii sabilillah* (in the cause of Allah) and *ibnu sabil* (the wayfarers) (Abd. Wahab & Abdul Rahman, 2011).

In contrast, Hafidhuddin (2002) argues that zakat is a share of wealth obligated by Allah that must be distributed to deserving categories under several rules and regulations. The rules include: a) the wealth must be obtained from lawful (*halal*) and pure (*thayyib*) sources; b) the wealth can be developed or have the potential to be developed through activities that can generate income such as trade, entrepreneurship and others; c) the wealth or property must be legally owned by the zakat payers (*muzakki*), d) the wealth must have reached the ‘*nisab*’ (a condition where the wealth is reached the maximum) and e) for several zakat such as zakat for trade and entrepreneurship, zakat for animal stock and zakat for gold and silver, there is minimum time to pay zakat (*haul*) which is one year. In sum, zakat is an act that has been prescribed by God (Allah) for mankind to share their wealth under certain terms and regulations in order to achieve the growth, sustainability, and blessing in every aspect of life. Involving economic aspect, education aspect, health aspect, and other social aspects.

The epistemological discussion of zakat implies that zakat is an important tool to eradicate poverty and increase the level of well-being of the society. To enforce the religious prescription on zakat, establishing zakat institutions is important to manage zakat collection and distribute collected funds. In this sense, the zakat institution is viewed as an integral part of the socio-economic system (Ab Rahman et al, 2012).

Zakat accounting standard in global context

In the global context, there are plenty institutions that issued a financial reporting standard for Islamic financial Institution. We note that there is Accounting and Audit Organizations for Islamic Financial Institution (AAOIFI) which established in 1999 and based in Bahrain (www.aaofii.com), Islamic Financial Service Board (IFSB), established in 2002 and based in Malaysia (www.ifsb.org), and International Islamic financial market standard (IIFM) also established in 2020 and based in Bahrain (www.iifm.net). A recent survey that mentioned by Hassan et al (2019) stated that the financial standard that issued by those three institutions is lack of socio-economic perspective. Therefore, it is important to develop such standard for that specific purpose.

In addition to Hassan et al (2019) findings, we note that there is one specific financial standard that discussed the socio-economic perspective namely the Sharia standard No. 35 and Sharia SAFS No.109. The Sharia standard is a financial reporting standard that issued by AAOIFI. Meanwhile Sharia SAFS No. 109 for zakat issued by IAI and it is based in Jakarta, Indonesia. Other than that, we support Hassan et al (2019) findings that it is hardly to find financial reporting standard in view of socio-economic perspective and specifically discussed about zakat as Islamic philanthropy fund. However, between those two standards, Sharia SAFS No.109 is the standard who specifically mentioned the standard for zakat institution. It is because, the Sharia standard No. 35 is discussing on how an institution paid their zakat. In contrast, SAFS Sharia No. 109 is financial reporting standard for Zakat institutions.

Zakat institution development in Indonesia

On the other hand, the development of zakat institution in Indonesia, according to Susanto and Cahyadin (2008) is regulated in law (undang-undang) No.38 year 1999. The law stated that practically, the zakat institution in Indonesia is divided into two parts. The first is Badan Amil Zakat (BAZ) and Lembaga Amil Zakat (LAZ). The BAZ is managed and operated officially by the government while LAZ is managed and operated by society. Despite the differences, both institutions are authorised and legal to collect zakat funds from society as regulated by the law.

Furthermore, there are three level of operational scope, the national, provincial, and municipal level. By 2019 the number of LAZ in total has reached 74 Institutions in all level of operational scope. Further, by today, BAZ has its representatives in each province in Indonesia. The three tables below show the total number of LAZ by operational level, and the name of LAZ which operated in national and provincial level (www.pid.baznas.or.id):

Table 1			
Number of LAZ in Indonesia			
	National Level	Province Level	City Level
Number of LAZ	25	15	34
Total	74		

Source: www.pid.baznas.or.id, 2019

Table 2		
Name of LAZ at the national and province level		
No	Name of LAZ	Level
1	Rumah Zakat	National level
2	Daarut Tauhid	National level
3	Baitul Maal Hidayatullah	National level
4	Dompot Dhuafa Republika	National level
5	Nurul Hayat	National level
6	Inisiatif Zakat Indonesia	National level

7	Yatim Mandiri Surabaya	National level
8	Lembaga Manajemen Infak Ukhuwah Islamiyah	National level
9	Dana Sosial Al Falah Surabaya	National level
10	Pesantren Islam Al Azhar	National level
11	Baitulmaal Muamalat	National level
12	LAZISNU	National level
13	Global Zakat	National level
14	LAZISMU	National level
15	LAZ DDII	National level
16	LAZ PERSIS	National level
17	Rumah Yatim Ar-Rohman Indonesia foundation	National level
18	Kesejahteraan Madani foundation	National level
19	Griya Yatim dan Dhuafa	National level
20	LAZ PPPA	National level
21	LAZ Baitul Ummah	National level
22	LAZ AQL	National level
23	Mizan Amanah foundation	National level
24	Panti Yatim Indonesia Al-Fajr	National level
25	LAZ Wahdah Islamiyah	National level
26	LAZ Baitul Maal FKAM	Province level
27	Semai Sinergi Umat	Province level
28	LAZ DASI NTB	Province level
29	LAZ DSM Bali	Province level
30	Harapan Dhuafa	Province level
31	Solo Peduli Ummat	Province level
32	LAZ DPU KALTIM	Province level
33	Al Ihsan Foundation	Province level
34	Nurul Fikri Foundation Palangkaraya	Province level
35	Gema Indonesia Sejahtera	Province level
36	Insan Madani Foundation Jambi	Province level
37	Nurul Falah Foundation Surabaya	Province level
38	As Salaam Jayapura	Province level
39	Al Hilal Foundation	Province level
40	Persada Al Haramain Foundation	Province level

Source: www.pid.baznas.or.id, 2019

In terms of zakat collection and its distribution, National BAZ (BAZNAS) reports that in 2017, the total zakat fund collected by all the zakat institutions in Indonesia has reached 3.7 trillion IDR. This number increased by 10.62% from 2014 (Baznas, 2017). Moreover, 78% of zakat funds collected by all the zakat institutions in 2017 were distributed to the beneficiaries.

The information about the collection and distribution of zakat funds in Indonesia is summarised in the table below:

Institution	Collection		Distribution		Absorption
	US\$	%	US\$	%	
BAZNAS	10.817.775,88	2,47	9.294.236,56	2,71	85,92%
BAZNAS in Province scale	31.575.804,78	7,20	27.348.308,86	7,99	86,61%
BAZNAS in City scale	241.426.667,59	55,05	185.267.072,32	54,11	76,74%
LAZ	154.716.491,30	35,28	120.511.580,71	35,19	77,89%
Total	438.536.739,55	100,00	342.421.198,45	100,00	78,08%

Source: *Zakat Outlook, BAZNAS, 2019, modified*

Zakat distributions in Indonesia and practical insight from other countries

In terms of zakat fund distribution, there are two ways of distribution that has been done by zakat institutions in Indonesia, namely zakat for consumption and zakat for productive purposes initiatives. We found that there is at least two zakat institutions that practise the zakat for productive purposes programme, namely Baitul Maal Muamalat Indonesia (BMMI) and Badan Amil Zakat Nasional (BAZNAS) (Yumna & Clarke, n.d).

The *Komunitas Usaha Mikro Muamalat Berbasis Masjid* (KUMMM) and 'Indonesia Makmur' programme were initiated by BMMI and BAZNAS where the poor who intended to join the programme receive capital assistance on the condition that they must participate in religious activities conducted in the Mosque. Furthermore, the Indonesia makmur programme were using soft loan (*qard hasan*) scheme. The programmes are practised in several areas in Indonesia including West Nusa Tenggara, East Nusa Tenggara, West Sumatra, and West Java (Yumna & Clarke, n.d.).

In Malaysia, zakat institutions have been incorporated since 1991. They are managed professionally and have been successful in terms of zakat fund management. The outcome of professionally managed zakat institutions is reflected in both the improvement of the institution and the significant increase of zakat payment (Basir et al, 2017). The distribution of zakat funds in Malaysia is also relatively more innovative. It is not limited to social activities but involves various innovative programmes designed to improve the income-generating capacity of the poor. Hassan and Noor (2015) reported that the zakat fund serves as a mechanism to empower the poor in Malaysia economically, by, for instance, supporting

their retail businesses. Empirical studies consistently document that zakat distribution is associated with better social securities (Mikail et al, 2017; Yussof & Densumite, 2012).

In Pakistan, zakat institutions are also well-developed in terms of management system since the government has made it compulsory for Muslims to pay zakat via banks and zakat institutions (Suhaib, 2009). The zakat fund in Pakistan contributed to the establishment of numerous hospitals, permanent rehabilitation scheme phase I and II, and an increase to 100% of marriage allowance (from Rs 5,000 to Rs 10,000). However, unlike zakat institutions in Indonesia and Malaysia, zakat institutions in Pakistan have not utilised their funds for productive activities such as microfinance and small and medium enterprises (SMEs) (Suhaib, 2009).

In the case of Nigeria, unlike the dynamic developments that characterise zakat institutions in Pakistan, Malaysia, and Indonesia, its zakat institutions have stagnated (Amuda, 2013). However, the institutions are expected to grow as public awareness about Islamic socio-development instruments such as zakat, waqf, and sadaqa is on the rise. These Islamic social funding instruments are also expected to contribute to empowering the Muslim society on the condition that zakat institutions in Nigeria manage their funds properly (Amuda, 2013).

The preceding discussion indicates that zakat institutions in Indonesia, as well as most Muslim-majority countries, has been performing excellently in terms of collecting and utilising zakat funds to eradicate poverty, particularly through productive purposes or Islamic microfinance channels to reduce socio-economic problems (Ahmed, 2002; Kaleem et al, 2010; Ismail & Possumah, 2012; Rahman & Dean, 2013).

3. RESEARCH METHODOLOGY

In order to achieve the objective of this study, fundamentally we focus on elaborating the effect of Sharia SAFS No. 109 on zakat institutions' performance. We use an econometric approach which is difference in differences (DiD) test and panel data regression following the steps employed by Halim et al, (2018); Tanko (2012); Umoren and Enang (2015) and Adeuja (2015).

The DiD method allows us to prove empirically the causal relationship of practising Sharia SAFS No. 109 on the performance of zakat institutions with the panel data regression approach. Further, we also employ data panel regression, a method that has 'i' as across-section and 't' time series (Gujarati, 2004) as this study observed more the one institution and more than one year. This study used purposive sampling and select five zakat institutions in Indonesia and observe the impact of Sharia SAFS adoption for 8 years, started from 2010 to 2017. This limitation happens due to limited access to financial reporting statement that issued by Zakat institution. We note only BAZNAS, Rumah Zakat, and Dompot Dhuafa who has financial reporting statement that accessible online.

The general model of this study is specified in this equation below:

$$DIS_{it} = \beta_0 + \beta_1 SAFS_{it} + \beta_2 SIZE_{it} + \beta_3 GROWTH_{it} + \varepsilon_{it}$$

Where:

it = for zakat institution 'i' and for year 't'

DIS_{it} = Natural logarithm of total zakat distribution

β_0 = Constant

$SAFS_{it}$ = A dummy variable which equals one for post-adoption of SAFS Shariah No. 109 about zakat and zero otherwise

$SIZE_{it}$ = Natural logarithm of zakat institution's equity

$GROWTH_{it}$ = Natural logarithm of zakat fund collection

Our approach is consistent with Tanko (2012), Umoren and Enang (2015) and Adeuja (2015) in their study on the effect of adoption of IFRS among firms and banks in Nigeria. We perform both fixed-effect model (FEM) and the random effect model (REM) regression (Gujarati, 2004).

Variable Description

As widely practised in the financial literature, financial performance of an institution can be measured by the ratio of return on asset (ROA) or return on equity (ROE) (Rappaport, 1986 as cited in du Wet & du Toit, 2007). Further, some researchers have also considered other measures of financial performance based on certain reasoning standards. For instance, the International Accounting Standard Board (IASB) proposes three other proxies for financial performance, namely: a) earnings management; b) timely loss recognition; and c) financial ratios (Tanko, 2012; Sianipar & Marsono, 2013).

On the other hand, organisational theory suggests that the measurement of performance should be based on the principles and goals of the organisation (Etzioni, 1964 as cited in Murphy et al, 1996). Therefore, in the context of our study, the performance of zakat institutions can be measured based on the aim of the zakat institution as a Islamic philanthropy institution. As mentioned by Qardhawi (2000), Hafidhuddin (2002) and Abd. Wahab and Abdul Rahman (2011) which emphasise that zakat institutions aim to eradicate the poverty through the distribution of zakat fund to the beneficiaries (*mustahik*). Therefore, following the statement from these scholars, we use the total distribution of zakat fund to the beneficiaries (*mustahik*) as a measurement of the financial performance of zakat institutions in Indonesia.

In order to test the effect of Sharia SAFS No. 109 on zakat institution performance, we use a dummy variable where the value of one represents the post-adoption and zero represents the pre-adoption of Sharia SAFS No. 109. We also examine the effect of zakat institutions 'market value' and growth the 'market value' as used by Tanko (2012) and Adeuja (2015). Following previous studies, we use the market value of zakat institutions represented by the natural logarithm of its equity, while growth is measured by the natural logarithm of zakat fund collection.

Determining Best Model

In determining best model, either fixed effect model (FEM) or random effect model (REM), there are three tests that can be used in the panel regression process. Those are: a) Chow test, b) Hausman test and c) LM test (Wooldridge, 2001; Pyndick & Ruperfield, 1998).

- Chow test

The chow test compares pooled least square and Fixed effect model (FEM). Thereby the hypothesis is stated as follows:

$H_0 = 0$: the best model is Pooled least square

$H_1 \neq 0$: the best model is fixed effect model

- Hausman test

The Hausman test compares fixed effect model (FEM) and Random effect model (REM). The hypothesis for this test is as follows:

$H_0 = 0$: the best model is fixed effect model

$H_1 \neq 0$: the best model is Random effect model

- LM test

The LM test compares pooled least square and random effect model (REM). The hypothesis for this test is as follows:

$H_0 = 0$: the best model is Pooled least square

$H_1 \neq 0$: the best model is Random effect model.

The study conducted several classical models in order to determine the best models. The classical models used in this study are the autocorrelation test and normality test. This is important as the results of the classical model determine the efficiency and effectiveness of our model. The autocorrelation test explains whether the variables are correlated or not. If the variables are correlated, it means that the model suffers from inefficiency. To determine the presence of the autocorrelation problem, several methods are used, specifically by graphic and econometric results. In this study, we used the econometric method for autocorrelation test. If the p-value is zero, then there is no correlation between the variables and vice versa. Moreover, the normality test explains whether the variables are normally distributed or not (Gujarati, 2004).

4. EMPIRICAL RESULTS

On average, total zakat distribution (Y) in five zakat institutions in Indonesia before the adoption of SAFS Sharia No. 109 is Rp115,138,724,398, and it increased nearly double after the adoption of SAFS Sharia No. 109 to Rp198,936,677,530. Further, the average of equity (SIZE) of zakat institutions before the adoption of SAFS Sharia No. 109 is Rp57,036,502,606 equal to USD 4,095 million and increased double after the adoption to Rp102,210,145,920 equal to USD 7,349 million. The average zakat collection (GROWTH) before the adoption of the financial standard is Rp125,785,481,998 or equal to USD 9,033 million and increased to Rp257,754,377,612 or equal to USD 18,510 million after the adoption of the financial

standard. Table below also displays the summary statistics of all the variables such as median, standard deviation and variance.

Panel: By year	n	(Y) Zakat distribution		n	Zakat institution's equity		n	Zakat collection	
		Before adoption of SAFS	After adoption of SAFS		Before adoption of SAFS	After adoption of SAFS		Before adoption of SAFS	After adoption of SAFS
2010	3	61,229		3	37,067		3	77,451	
2011	4	169,048		4	77,005		4	174,119	
2012	3		35,629	3		70,080	3		213,813
2013	4		155,294	4		103,491	4		249,957
2014	4		210,393	4		94,316	4		264,094
2015	4		328,656	4		98,399	4		331,791
2016	4		222,824	4		105,886	4		230,651
2017	4		240,822	4		141,086	4		256,164
Total	30	230,277	1,193,620	30	114,073	613,260	30	251,570	1,546,472
Mean		115,138	198,936		57,036	102,210		125,785	257,745
Median (All)	35,677			13,687			55,920		
Std Dev (All)	43,178			23,555			41,400		
Variance (All)	1,864,375			555,850			1,714,030		

Note: Y, SIZE and GROWTH respectively represent the zakat fund distribution, zakat institution equity and zakat fund collection in million of Indonesian Rupiah.

Further, to test the difference in zakat institutions' performance before and after the adoption of Sharia SAFS No. 109 as a financial reporting standard, we employ the difference in differences (DiD) test. Our variable of interest is Sharia SAFS, a dummy variable equals one for post-adoption of Sharia SAFS No. 109 about zakat and zero otherwise. Results are reported in Table 5. We find that the SAFS variable is significant in both t-test and f-test. Specifically, the adoption of Sharia SAFS No. 109 is significant in increasing the zakat institutions' performance as it is represented by zakat fund distribution.

	Mean of zakat distribution		Diff test: Coefficient (P-Value)	F/Wald Test	R ²
	Before adoption of SAFS	After adoption of SAFS			
SAFS	115,138	198,936	.502 (0.098)*	2.74 (0.098)*	0.055

To add further result this study also examine the relationship between the adoption of Sharia SAFS and the performance of zakat institutions by using multiple panel data regression and report the results in Table 6 where the dependent variable is the natural logarithm of total zakat distribution (Y). The results show that 65.54% variation in total zakat distribution is explained by independent variables. Our test produces consistent results with respect to the size of zakat distribution as measured by the natural logarithm of total equity (SIZE) and the natural logarithm of zakat fund collection (GROWTH). Contrary to our expectation, we find the adoption of Sharia SAFS No. 109 for zakat reporting does not have any significant impact on the total zakat distribution using this method.

The panel regression results indicate that the best model that fits our data well is the pooled least square (PLS) model. However, in order to choose the fittest model, the model must fit several standard tests such as autocorrelation, normality, and heteroscedasticity as suggested by Gujarati (2004). We run two out of three classical tests to determine the best model for our study.

The result of the correlation test shows that Y, SAFS, SIZE, and GROWTH variables are slightly correlated (0.125) while the result of normality test shows those variables are undistributed normally (0.634). This means that even though the PLS can be analysed, it faced an inefficiency problem. To address these concerns, we use generalised least square (GLS) model which is more robust with respect to other models such as PLS, fixed effect model (FEM) and random effect model (REM) (Gujarati, 2004). Further, among those independent variables, the GROWTH variable, which represents zakat fund collection, is the most significant variable both statistically (at 1% level) and economically (0.747).

Models	Variables				F/Wald Test	R ²
	Constant	SAFS	SIZE	GROWTH		
PLS (2)	1.918 (0.564)	.0365 (0.885)	.170** (0.044)	.747*** (0.000)	16.48*** (0.000)	0.6554
FEM (3)	-.0894 (0.990)	-.124 (0.719)	.223 (0.392)	.784** (0.029)	4.77** (0.0104)	0.6477
REM (4)	1.918	.0365	.170**	.747***	49.45***	0.6554

	(0.559)	(0.884)	(0.034)	(0.000)	(0.000)	
GLS (5)	1.918 (0.530)	0.365 (0.875)	.170** (0.023)	.747*** (0.000)	57.05*** (0.000)	0.6554
Chow F-Test					5.10469504*** (0.000)	
Hausman Test					0.79 (0.8528)	
LM Test					0.00 (1.000)	
Lawley test for autocorrelation					12.46** (0.0290)	
Doornik-Hansen normality test					63.382*** (0.000)	

* Significant on alpha 10%

() p-value

** Significant on alpha 5%

*** Significant on alpha 1%

5. RESULTS DISCUSSION

The adoption of Sharia SAFS No.109

The analysis using DiD produces consistent results with respect to the SAFS variable where it is significant to the zakat fund distribution. It indicates there is an effect of Sharia SAFS adoption on zakat fund distribution in Indonesia. Specifically, the adoption of Sharia SAFS No. 109 is associated with an increase of 0.502 in zakat fund distribution. It means that the adoption of Sharia SAFS No. 109 generates nearly double the zakat distribution average as shown by Table 5. Nevertheless, the DiD test results must be interpreted with caution due to the very low value of R^2 , hence poor explanatory power of SAFS dummy variable. To be precise, R^2 value (0.055) indicates that the dummy variable only contributed 5% of the variation in the dependent variable (zakat distribution).

Moreover, contrary to the DiD test results, the GLS model of panel data regression shows that SAFS variable is not significant to the zakat distribution the zakat institution performance proxy. Hence, we do not provide empirical evidence to support the notion that the financial reporting standard (i.e. Sharia SAFS No. 109) for zakat helps improve zakat distribution. A plausible reason for the insignificant relationship is that Sharia SAFS No. 109 has not yet faithfully been adhered by zakat institutions in their reporting. This is supported by Shahnaz (2016) which discussed the implementation of Sharia SAFS in BAZNAS North Sulawesi province, and Megawati and Trisnawati (2015) in BAZNAS Riau province.

Consistent with this idea is the ongoing critique by some scholars over the Sharia compliance of zakat for productive purposes programme whereby the *qard hasan* (soft loan) is still being used in the programme (Alim, 2015). Zakat fund must be distributed directly to the deserving categories (*mustahik*) while using *qard hasan* (soft loan) there is a possibility that the fund is

returned to the zakat institution by the deserving categories. This is a critical point that according to Alim (2015) it is not permissible and therefore contrary to Islamic law (Sharia).

The size of the zakat institution

We find the size of zakat institutions as measured by their equity is significant both statistically and economically to the distribution of zakat. Specifically, every addition of 1 (one) unit of equity of zakat institution is associated with an increase in 0.170 unit of zakat fund distribution. Further, the zakat institutions' equity is used as a proxy of 'market value' of zakat institutions in Indonesia.

The growth of zakat institution

The result also shows that the growth of zakat institutions in Indonesia is significant in increasing zakat fund distribution. This means that in every addition of 1% of zakat fund collection contribute to an increase in zakat fund distribution by 0.747%. Further, it implies that if zakat institutions in Indonesia tend to increase their distribution, they will have to increase their zakat fund collection.

The coefficients of GROWTH consistently show the value 0.747, indicating that not all zakat funds collected are fully distributed to the beneficiaries (*mustahik*). If the zakat institutions distribute all the fund to the beneficiaries (*mustahik*) the coefficient value should be 0.875 (one minus the zakat administrator share, 0.125). This finding is consistent with the view that the performance of zakat institutions in Indonesia is still below the target (BAZNAS, 2017). One plausible explanation for this finding is most zakat institutions in Indonesia are still facing an inefficiency problem. The gap between the zakat fund collection and its distribution is approximately about 12.8%. This finding is very useful for zakat institutions to boost their performance by distributing more zakat fund.

6. CONCLUSION

This unique study, which discussing the impact of zakat accounting standard to the zakat institution performance found that there is a double increased (0.502%) of zakat distribution after adopting the Sharia SAFS using the DiD test. Nevertheless, panel data regression shows the adoption of Sharia SAFS No. 109 has no significant impact on increasing zakat distribution during the 2010-2017 period. Hence, we provide limited evidence on the influence of Sharia SAFS No. 109 on zakat institutions' performance in Indonesia. We attribute this finding to partial adherence of zakat institutions to the Sharia SAFS No. 109 (Alim, 2015).

Furthermore, the zakat institution's equity (SIZE) and zakat fund collection (GROWTH), respectively, are positively associated with zakat fund distribution in Indonesia during 2010-2017. Our findings imply that first, Indonesian zakat institution may increase their 'market value' and zakat fund collection in order to increase zakat fund distribution. Second, zakat fund collection should be fully distributed to the beneficiaries (*mustahik*) to optimise the social effect of zakat institutions. Third, the performance on zakat institutions in Indonesia is

still below the target indicating inefficiency problem in their operation. As our results show, the gap between zakat fund collection and its distribution is approximately 12.8%.

Nonetheless, our results need to be viewed with caution due to small sample size. Our study is limited to examining the impact of zakat reporting standard on the distribution of zakat fund among zakat institutions in Indonesia. With larger dataset available, future study can provide a more robust evidence on the influence of zakat reporting standard on the performance of zakat institutions in Muslim countries. Further analysis may also consider exploring Sharia compliance with respect to the practice of Sharia SAFS No.109 for zakat.

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