

The Raid of Neoliberalism on Accounting Standard Setting of Indonesian Islamic Financial Institutions

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ABSTRACT

This paper offers a critical analysis of the politics of accounting standard setting and showcased how neoliberalism and adoption of IFRS capture shariah standard setting for Indonesian Islamic Financial Institutions (IFIs). Guided by the political economy lens of neoliberalism and accounting standard-setting, a critical review of existing literature is undertaken in writing the narratives on the capture of shariah standard setting for IFIs in Indonesia. The neoliberalism agenda of financialisation in ensuring the Indonesian financial sector mimics its capitalist counterparts and enabling IASB to maintain its monopolistic position were successful through economic reform and suppression of the potential rise of an alternative local shariah standards for IFIs by the country's political and professional elites. The paper enriches IFRS adoption literature using the political economy framework of neoliberalism to understand the obviation of shariah standard setting for Indonesian IFIs.

ملخص

يقدم هذا البحث تحليلاً نقدياً لسياسة وضع معايير المحاسبة، موضحاً كيف أن النيوليبرالية واعتماد المعايير الدولية لإعداد التقارير المالية قد استحوذاً على عملية وضع المعايير الشرعية للمؤسسات المالية الإسلامية في إندونيسيا. وانطلاقاً من منظور الاقتصاد السياسي للنيوليبرالية وآليات وضع المعايير المحاسبية، أُجريت مراجعة نقدية للأدبيات القائمة من أجل صياغة سردية توضح كيفية هيمنة هذه التوجهات على عملية وضع المعايير الشرعية في المؤسسات المالية الإسلامية الإندونيسية. وقد نجحت أجندة النيوليبرالية في تسليع القطاع المالي وضمان محاكاته لنظرائه الرأسماليين، فضلاً عن تمكين مجلس معايير المحاسبة الدولية من الحفاظ على موقعه الاحتكاري، وذلك عبر الإصلاحات الاقتصادية وقمع احتمالية نشوء بدائل محلية من المعايير الشرعية الخاصة بالمؤسسات المالية الإسلامية، بدعم من النخب السياسية والمهنية في البلاد. وبذلك، يُثري هذا البحث أدبيات اعتماد المعايير الدولية لإعداد التقارير المالية باستخدام إطار

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الاقتصاد السياسي للنيلبرالية لفهم تهميش أو إلغاء تطوير المعايير الشرعية في المؤسسات المالية الإسلامية الإندونيسية.

RÉSUMÉ

Cet article propose une analyse critique de la politique de normalisation comptable et montre comment le néolibéralisme et l'adoption des normes IFRS ont influencé la normalisation de la charia pour les institutions financières islamiques (IFI) indonésiennes. En s'appuyant sur l'analyse politico-économique du néolibéralisme et de la normalisation comptable, nous procédons à un examen critique de la littérature existante afin de rédiger un compte rendu sur l'influence exercée sur la normalisation de la charia pour les IFI en Indonésie. Le programme néolibéral de financiarisation visant à garantir que le secteur financier indonésien imite ses homologues capitalistes et à permettre à l'IASB de conserver sa position monopolistique a été couronné de succès grâce à la réforme économique et à la répression de la montée potentielle d'une norme locale alternative à la charia pour les IFI par les élites politiques et professionnelles du pays. Cet article enrichit la littérature sur l'adoption des normes IFRS en utilisant le cadre de l'économie politique du néolibéralisme pour comprendre l'obviation de la normalisation de la charia pour les IFI indonésiennes.

Keywords: Neoliberalism, Shariah financial reporting standard setting, Islamic Financial Institutions, Indonesia

JEL Classification: M40; M41; M42; M48

1. Introduction

A single harmonized standard in an increasingly codependent and interconnected world is propagated to be necessary for an effective and efficient global marketplace. The two major accounting standards are the US Financial Accounting Standards Board's (FASB) generally accepted accounting principles (GAAP) and the UK based International Accounting Standards Board's (IASB) international financial reporting standards (IFRS). A primary concern with harmonization for stakeholders is whether the quality of the standard will be impacted by the type of regime, i.e. the FASB's rule-based regime and the IASB's principles-based regime. The rule-based approach of US GAAPs faced greater resistance from factions both within and without the US following many

financial scandals as the more precise reporting standards and ‘tick-box mentality’ are found to be associated with earnings management and that the only antidote to aggressive reporting is to adopt the IASB’s IFRS, which is principles-based (Nelson, 2003).

However, research evidence suggests neither a rules-based (US GAAP) nor principles-based (IASB’s IFRS) regime significantly affects the overall quality of financial reporting (Hail, Leuz, & Wysocki, 2010) or alters the incentive or ability of management to report aggressively (Maines et al., 2003). If reporting quality is considered high for either regime, then a decision to adopt one over the other should become irrelevant especially if the fundamental ideology is based on capitalism. Moreover, in the pursuit of dominance on the global platform, both regimes are susceptible to political lobbying (Zeff, 2002) and the standard-setter with more monopolistic power stand a better chance of success (Jamal et al., 2010).

The more successful global accounting harmonisation project by IASB can be seen as part of the global neoliberal architecture in promoting the capitalist agenda by removing ‘local impediments’ and optimising the conditions for corporations to raise capital, transact or operate in multiple countries as well as providing efficient, cost-effective reporting that meet investors’ needs instead of meeting the public interest function of accounting (Sikka, 2001). Through its rhetoric of enhancing transparency, strengthening accountability and boosting economic efficiency, it has managed to convince countries world-wide to adopt IFRS. Indeed, proponents of IFRS assert that the standards have produced benefits, including improved transparency (Ball, 2006; Madawi, 2012), international comparability (Jones, 2013; DeFond et al., 2011), market efficiency, and cross-national investment flow (Jermakowicz & Gornik-Tomaszewski, 2005).

Despite the momentum of IFRS adoption by nations, research has also shown that IFRS adoption is problematic especially for emerging and developing nations (see e.g. Perera and Baydoun, 2007; Tyrall et al., 2007; Chand and Patel, 2011; Chand et al., 2010; Albu et al., 2014; Al-Htaybat, 2018) due to different legal, economic and accounting landscape as well as culture. Chand and White (2007) contested the ‘one size fits all’ assumption by IASB that a single regulatory framework is able to

meet the financial reporting needs of all societies. As a result, IFRS adoption varies across jurisdictions; out of 140 jurisdictions claiming adoption, only 116 require essentially all public companies to report using IFRS, 8 countries have retained domestic standards for public companies, 12 countries permit but do not require public companies to report under IFRS, and 4 countries either require IFRS for financial institutions only (Saudi Arabia and Uzbekistan) or are in the process of adopting (Thailand) or substantially converging to IFRS (Indonesia) (see Ball, 2016).

The emergence of Islamic banking and the growth of Islamic financial institutions (IFIs) to fulfil the religious needs of Muslim societies have triggered efforts to address the deficiencies in IFRS in meeting Islamic accounting requirements including the contractual aspects of Islamic financial products (Nasir and Zainol, 2007). Since financial reporting is recognized as an important communication tool for IFIs to communicate Shariah compliance to stakeholders, projects have been undertaken in developing Islamic accounting standards by national and international bodies. However, these projects seemed to end up with the convergence or adoption of IFRS.

Since each country has its unique experience leading to the adoption of IFRS, this paper contributes to the extant literature on IFRS adoption in emerging economies by focusing on the Indonesian financial reporting project for IFIs. Utilising the political economic framework of neoliberalism, it will show how neoliberal political-economic logic is both rationalized and resisted through external agents and aided by internal agent that subsequently impede the project for shariah accounting standards for IFIs.

The remainder of the paper proceeds as follows. Section 2 discusses the concept of neoliberalism as a methodology in understanding its effects on the standard-setting projects. Drawing from the Islamic accounting and financial reporting standards literature, section 3 argues on the shortcomings of IFRS in fulfilling the religious socio-economic needs of Muslims and discusses the attempts in developing Islamic financial reporting standards. Section 4 present the case of the capture of shariah accounting standard-setting project for Indonesian IFIs and section 5 concludes the paper.

2. Neoliberalism and standard-setting

Neoliberalism is an ambiguous concept that takes various forms depending on the motives of those who promote them (Steger & Roy, 2010). From a political economy perspective, neoliberalism is a “project that seeks to extend competitive market forces, consolidate a market-friendly constitution, and promote individual freedom” (Jessop, 2012, p. 1514). In other words, neoliberalism is seen as a phase of capitalism in supporting financialisation, i.e. the growing importance of “finance” in the operation of the economy (Chiapello, 2017). A key feature of neoliberalism from this perspective is designing policies to make the financial markets more important, or to reinforce shareholder primacy, thus reinforcing the power and income of the capitalist class.

For neoliberalist, globalisation is a useful tool for promoting capitalists’ interest through policies of privatisation, marketisation and deregulation as well as lifting restrictions on the way businesses conduct themselves nationally and internationally (Cooper et al., 2010; Cahill, 2010). Since neoliberalism tends to judge all economic activities in terms of profitability and all social activities in terms of their contribution to capital accumulation, its policies of ‘deregulation’ actually reconfigures regulation with market-oriented rules and policies to facilitate the development of a new form of capitalism that serves the elite class through concentrations of wealth and power (Zhang, 2011). Foreign direct investment (FDI) is another tool often used to convince the political elites in embracing neoliberal ideologies (Robison, 2004; Sklair, 1995) not only to improve the state of economy but also potential personal gains that can be gained through connections with entrepreneurial capitalists, thus perpetuating clientelism and nepotism (Sikka, 2015). Political monopolisation and poor public awareness that are common in developing countries also allow political elites imbued with neoliberalism ideals to use state power to make decisions benefiting a select group of well-connected businesses rather than the entire market (Girling, 1997; Krugman, 1998; Wade, 1998; Haber, 2002) including influencing the financial reporting practices and policies.

In crisis-ridden economies in parts of Africa, Asia and Latin-America, neoliberal policies involving economic restructuring processes and regime shifts as part of a quid pro quo for financial and other assistance

(Gwynne & Kay, 2000; Robinson, 2008) are often imposed by transnational economic institutions and organizations backed by leading capitalist powers and facilitated by local partners among domestic political and economic elites (Jessop, 2012). This includes powerful financial institutions, such as the International Monetary Fund (IMF), World Bank (WB), Organisation for Economic Co-operation and Development (OECD), World Trade Organisation (WTO), as well as through memberships in supra-organisations such as the G7 and G20.

While harmonisation of accounting standards is an important mechanism in supporting the financialization agenda of neoliberalism, a fundamental problem with private accounting standard setters in both international and national arenas is legitimacy (De Luca & Prather-Kinsey, 2018; Richardson & Eberlein, 2011). For instance, the IASB, as a global standard-setting body, is not organized through the democratic process (Sanada, 2020) and it does not share the characteristics generally assumed to be sources of legitimacy such as having clear mandates from national, supranational, or international law, clear accountability structures, clear jurisdictional boundaries and clear sets of potential democratic participants in the processes (Black and Rouch, 2008). Moreover, certain standard setter and set of accounting standards may face competition with other standard setters and standards in some environments, and in order to prevail, they need to have legitimacy.

In the geopolitical space, standard setting for financial reporting does not necessarily have to be the responsibility of the IASB alone which is currently the dominant global standard-setter. As a private body that lacks legitimacy and having no enforcement power, IASB had to employ various strategies to grow and expand its power using the supra-national financial institutions such as the IMF, WTO, WB and OECD. Using the logics of superior expertise, accountability, public interest, transparency, and due process (Gallhofer and Haslam, 2007; Carter and Warren, 2019), it managed to get regulatory backing from various bodies including the internationally respected regulator, IOSCO, in policing and enforcing IFRS globally and hold many different forms of hegemonic power. As it gained more power, its monopolistic status in standard setting makes it more difficult for countries to avoid adoption of IFRS (Hopper et al., 2017), making it the de facto standard adopted by many nations. Sunder (2002, 2011) insisted on the necessity of regulatory competition among

IFRS, US GAAP, and other accounting standards, and raised questions about the IFRS monopoly in the global standard-setting arena. This includes the IASB's role in capturing an alternative financial reporting standards for IFIs and other Islamic entities.

3. The rise of Islamic financial reporting standards as a competing alternative to IFRS

The emergence of Islamic banking and other financial institutions in the 1970s requiring integration of religious principles with economic activities gave rise to an Islamic perspective of accounting and reporting (Napier and Haniffa, 2011). The objective of Islamic accounting is to fulfil *maqasid-al-shariah*, the divine guidance in achieving socio-economic justice (*al-adl*) and success in this life and hereafter (*al-falah*) (Haniffa and Hudaib, 2002). Hence, Islamic accounting and reporting needs to cover a wider scope than just maximising profit; it needs to pay attention on the ethics of obtaining and use of economic resources to assist individuals to fulfil their religious obligations to Allah, society, the environment, and the self (Mukhlisin et al., 2015).

IFIs obtain their legitimacy by distinguishing themselves from their conventional counterparts based on their underlying principles of complying with *shariah* (Islam rulings), which makes it attractive to Muslims (Gambling et al., 1993). *Shariah* prohibits undertaking activities that involve interest (*riba*), gambling (*maysir*), speculative transactions where the subject matter and outcome of which are unknown or uncertain (*gharar*), as well as dealing in prohibited (non-halal) products and unethical activities.

Since accounting is considered an important communication tool, the contractual nature of Islamic financial products and their compliance with Islamic rulings need to be reflected in their financial reports (Mohammed et al., 2019; Hamid et al., 1993; Ibrahim & Yaya, 2005; Vinnicombe & Park, 2007). IFIs need to account for and disclose specific *shariah* commitments and components in their financial statements, such as unique contractual transactions and social responsibilities (Haniffa and Hudaib, 2007). This includes the disclosure and measurement of the various financial products such as trade with margin (*Murābahah*), forward sales and manufacturing contracts (*Salam* and *Istisnā*), profit and

loss sharing partnerships (*Mudhārabah/Musyārahah*), rent with rental charges (*Ijārah*), and fee-based services (*Wakālah*), each requiring specific accounting treatment.

Hence, in the early stages of the emergence of Islamic banking, each bank developed their own policies and consulted shariah scholars for guidance to ensure compliance. Since there are four major school of thoughts in Islamic law (*Hanbali, Hanafi, Maliki, Shafi*), the rulings by shariah scholars may differ in different jurisdictions. With the rapid growth of IFIs and to achieve some consensus in Islamic rulings (*fatawa*), ambitious projects are undertaken to develop an alternative to IFRS as it is not fit for purpose in dealing with the accounting treatment of Islamic financial products and services. The most prominent establishment of an international body for Islamic financial reporting standards is the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) based in Bahrain. AAOIFI deliberated on the two approaches viz. pragmatic and constructive, in developing the standards for IFIs and decided on the former approach. The argument for adopting the pragmatic approach is that it is not only costly to start from scratch but may take time. Hence, it would be better to adopt the standards available (IFRS) as they are also applicable to Islamic business entities (Ibrahim and Yaya, 2005; Karim, 1995; Lewis, 2001) and sufficient to post flags, excludes and replaces any aspects violating the Sharia principles. However, the pragmatic approach has been criticised and called on those in charge of developing Islamic accounting standards to look beyond secular methodologies (Karim, 1995) due to obvious philosophical differences (Vinnicombe and Park, 2007). Hence, in countries that favoured the constructive approach, efforts were taken by the local standard-setters to develop Islamic financial reporting standards for IFIs and other Islamic entities.

Such efforts by AAOIFI and other national standard-setting bodies are perceived by the IASB as challenging its position in the global stage as defender of capital markets and transnational companies, particularly the financial sector. To maintain its hegemonic position in the world stage, it had to curb the rise of any such alternative initiatives. One such project is the shariah accounting standard setting undertaken in Indonesia to fulfill the growing needs of IFIs and other Islamic business entities.

4. Neoliberalism, IFRS adoption and the setback in shariah standards for Indonesian IFIs

As mentioned earlier, IFRS is part of the architecture to serve the neoliberalist agenda in spreading and controlling the flow of capital across borders through the use of one accounting standards. This section will show how neoliberalism ideology and the adoption of IFRS are transported to other countries and the agents involved including in the capture of shariah accounting standards, using Indonesia as a case study.

4.1. Infiltration of neoliberalism and the promotion of IFRS

Neoliberalism as an ideology needs to be marketed to its target recipients using different strategies and mechanisms. Historically, neoliberal economic ideology of wealth accumulation has not played a major part in Indonesian economic policy as its ideas run counter to the basic principle contained in the country's constitution (Chandra, 2011). For instance, under Article 33:4 of the Indonesian Constitution, it is stated that the "national economy is conducted on the basis of economic democracy upholding the principles of togetherness, fair based efficiency, sustainability, environment-oriented, independency, and keeping a balance in the progress and unity of the national economy." Despite the dire state of the economy in the early years of independence, there was strong resistance on any economic interventions by foreign power and the economic policy was nationalistic, inward looking and protectionist in nature with a strong leftist orientation.

The unsuccessful attempt by the US in imparting neoliberal agenda through the offer of financial aid during Sukarno regime began to bear fruit through a different strategy during the Suharto regime (Hamilton-Hart, 2012). The appointment of a group of ministers responsible for economics and finance affairs, known as the "Berkeley Mafia" (as most members graduated from University of California, Berkeley), during President Suharto's New Order regime (Simpson, 2010) paved the road to capitalism in Indonesia. As mentioned by Jessop (2012), neoliberalist needs local agents and this group of technocrats trained in the US is the one who prepared the blueprint for the significant economic growth for

30 years in the country under Suharto. They introduced policies to boost economic growth mirroring those in the US and other liberal market economy countries. They are also the ones The drop in oil prices in the 1970s and the global economic recession in the 1980s which hit the Indonesian economy hard forced the government to undertake reform actions which marked the government's earliest efforts in deregulating and liberalizing the domestic financial system, especially in the banking sector and the capital market.¹ These early reforms were initiated from within the country by the technocrats.

As part of a government programme aimed at reactivating the Indonesian capital market, the Money and Capital Markets Preparation Team, an advisory body under the Indonesian central bank (Bank Indonesia), collaborated with the Indonesian Institute of Accountants (IAI) in setting up the Indonesian Accounting Principles Committee (Komite Prinsip Akuntansi Indonesia– KPAI) in 1974 to oversee the formulation of accounting standards. In 1984, it revised and published standards based on the US GAAP (Kusuma, 2005). To help invigorate the capital market after the economic recession in 1980s, a loan was sought from the World Bank in 1994 which imposed conditions for improvement in accounting practices (Cahyati, 2011) which led to a shift from the US GAAP to the use of International Accounting Standards (IAS).

The 1997 Asian Financial Crisis which triggered the balance of payments crisis led Indonesia to turn to the World Bank and IMF for financial support and this marked the first direct economic intervention from outside the country. The loan package from the World Bank and the IMF pushed the government further to remove all forms of restrictions attached to foreign ownership in companies listed on the Jakarta Stock Exchange (Chandra et al., 2009). The IMF's approval of a total amount of US\$10.14 billion over a three year period came with the introduction of a neoliberal reform agenda, including financial sector restructuring and structural

¹ They consisted of the following: 'PAKJUN 83' (June 1983 Package), which relaxed restrictions on the borrowing and lending of Indonesian national banks; 'PAKTO 1988' (October 1988 Package), which removed trading restrictions; 'PAKDES 1988' (December 1988 Package), which loosened government's role to exclusively supervise equity and debt markets, and 'PAKMAR 1989' (March 1989 Package) which opened the capital account liberalization door by generally allowing external lending and borrowing in the domestic banking industry (Kusuma, 2022).

reforms (Kusuma, 2022). One of the conditions is to establish an independent financial supervisory authority (FSA) for the capital market. The neoliberal agenda was also apparent in the World Bank development project despite initially facing political resistance due to its neoliberal strategy of separating ownership and class struggles (Carroll, 2009). In spite of these initial challenges, the projects were eventually restructured to promote competitive markets and transparency, though within a framework that continued to marginalise the poor.

Despite being critical of Suharto's excessive liberalisation of the economy that benefitted outsiders and bred corruption, nepotism and cronyism by favouring a select group of well-connected businesses to the detriment of wider Indonesian society, the first three post-reform Indonesian leaders (Habibie, Wahid and Megawati) after the Asian financial crisis cannot avoid external intervention imposed by IMF in exchange of financial aid, the quid pro quo, as suggested by Robinson (2008) and Gwynne & Kay (2000) that are often used by neoliberalist in crisis-ridden economies. Hence, those leaders had to deal with neoliberalist policies but with a protectionist strategy to cater to the needs of wider society including its majority Muslim population who demand banking products and services that are shariah compliant.

From the time of President Yudhoyono in 2004 and the subsequent governments, the neoliberal direction of Indonesian economic policy was driven more by own desire than external intervention (Chandra, 2011) as neoliberalism by this time has been deeply rooted among the political elites and technocrats in the system. The latter governments used the rhetoric of economic benefits to the country from cross-national investment flow and opportunities to venture and export to new markets in convincing the public of its pro-globalisation policies. However, these policies have been criticised as they are seen as pursuing their own political standing in the global platform through memberships in various regional and global economic institutions rather than protecting the national interest. This supports Robison's (2004) and Sikka's (2015) contention of political elites embracing neoliberal ideologies to pursue personal gains and using the interest of the state merely as a facade. Despite the demand by IMF for the setting up of an independent financial services authority (FSA), it was delayed by more than 8 years due to power struggle between individuals from the Ministry of Finance and the

central bank (Bank Indonesia) for membership in FSA (Omori, 2014) to maximise their own rather than public interest. The global financial crisis in 2008, provided the opportunity to the FSA agents to push for an independent institution that would take away banking supervision from Bank Indonesia following a series of financial scandals by Bank Indonesia high-level officials (Kusuma, 2022).

As a member of G20, Indonesia is obliged to comply and enforce any agreements made by the organization. During the G20 meeting in Washington, DC in 2008, the President of Indonesia announced the country's commitment to fully adopt IFRS by 2012. On 23rd December 2008, the Indonesian Institute of Accountants (Ikatan Akuntan Indonesia, IAI) made a formal statement that the Indonesian accounting standards would fully converge with IFRS, with an expected completion date of 1 January 2012 (Deloitte Touche Tohmatsu, 2009). This marked the beginning of a period of gradual transition to IFRS, a convergence process that progresses in three phases: the first phase (2008-2012) with the main goal to gradually merge PSAKs to IFRS; the second phase (2013-2015) aimed at reducing the differences between PSAKs and IFRS; and the third phase started in 2016 and full convergence was effective from 1 January 2024.

The decision to adopt IFRS was on the agenda after the 1997 financial crisis and the World Bank provided funding to the Capital Market and Financial Institutions Supervisory Agency (Badan Pengawas Pasar Modal dan Lembaga Keuangan, BAPEPAM) to improve accounting standards. According to Hamidah et al. (2015), a founder of one of the Big 4 accounting firms whose clients are listed companies in Indonesia Stock Exchange (IDX), was actively lobbying the BAPEPAM, Ministry of Finance, the Indonesian accounting standard setter to support the adoption to serve his organisation's and personal interest.

4.2. Navigating shariah accounting standards-setting for IFIs in a neoliberal environment

Although Islamic forces have always been strong throughout Indonesia's history, Islamic economic ventures only materialize to meet the religious needs of Muslim communities in 1991 with the establishment of Bank Muamalat Indonesia (BMI). As financial institutions, IFIs are subjected

to various regulations including its financial reporting as outlined by its jurisdictions. Besides the conventional standard-setting, there are additional parties involved in the case of IFIs. In Indonesia, this involved the IAI- Indonesian Shariah Accounting Standards Board and shariah scholars from the National Shariah Council of the Indonesian Ulama Council (Dewan Syariah Nasional-Majelis Ulama Indonesia/DSN-MUI) who are responsible in endorsing shariah compliance.

Between 1992-2002, BMI adopted conventional IAS-based standards (Nizam, 2012) as there was no other alternative standards. With the rise of other shariah-based entities in Indonesia, such as ar-rahn (Islamic pawning services) and takaful (Islamic insurance), the IAI established the Shariah Financial Accounting Standard Board (Dewan Standar Akuntansi Keuangan Ikatan Akuntan Indonesia, DSAK IAI) in 2002 to develop reporting standards based on Islamic principles, leading to the coexistence of conventional and Islamic GAAPs in Indonesia (IAI, 2024). The first shariah standard introduced was the Statement of Financial Accounting Standards 59 (PSAK-Shariah 59) which is related to the Basic Framework for the Preparation and Presentation of Sharia Bank Financial Statements, referring to AAOFI standards as guidance. It was endorsed by the Indonesian Ulama Council (Majlis Ulama Indonesia, MUI). This was followed by the issuance of Islamic Accounting Standard concerning Presentation of Islamic Financial Statements for Murabahah (PSAK 102, amended 402), Salam (PSAK 103, amended 403), Istisna' (PSAK 143, amended 404), Mudharabah (PSAK 105, amended 405), and Musyarakah (PSAK 106, amended 406) in 2007. In 2009, Islamic accounting standard concerning accounting for Ijarah (PSAK 107, amended 407) and accounting for takaful (PSAK 108, amended 408). In 2010 and 2011, Islamic accounting standards concerning accounting for zakat and infaq (PSAK 109, amended 409) and accounting for sukuk (PSAK 110, amended 410) were issued by the Sharia Accounting Standards Board.

Following the announcement of the adoption of IFRS, the regulator and practitioners have continuously pressured IFIs to apply IFRS. Despite some resistance on the application of IFRS for some transactions, as they clashed with the Islamic framework, the development of the shariah accounting has been curtailed through lobbying and involvement of the industry in regulatory processes. This raises significant accountability issues as it challenges the balance between serving the broader

community and advancing self-interest through rent-seeking practices that benefit only a select few.

5. Conclusion

This paper provides evidence on how neoliberalism is transported to countries with nationalistic tendency, using Indonesia as a case study. Based on the vulnerability and circumstances of the country, different strategies and mechanisms are adopted to support the financialization project of neoliberalism. In the Indonesian case, the dependence on financial assistance from the World Bank and IMF as well as the quest in securing memberships in various economic organisations such as the Asia-Pacific Economic Cooperation (APEC), the Association of Southeast Asian Nations (ASEAN), Free Trade Area (FTA), and the World Trade Organization (WTO) is part of the response to the trend of globalization and international market integration (Soesastro, 2000). The political elites and their allies rationalize their economic decisions in adopting neoliberalism as effective and efficient for the benefit of the country.

The adoption of IFRS serves as a mechanism to aid foreign companies in raising capital and operating in different countries. This persuasion operates in two ways: by favoring political parties and rewarding allies with economic projects, and by manipulating state infrastructure through the imposition of standards via international agreements. The increasing dominance of IFRS issued by the IASB significantly impacted efforts in developing a localised accounting and financial reporting standards, including for Indonesian IFIs. International organizations managed to leverage their soft power in harmonizing Indonesian Islamic and non-Islamic financial reporting standards, undermining efforts to harmonize Islamic accounting practices across Islamic countries. Also, the IASB project benefits the local wealthy class, especially the large conglomerates with access to political power and institutions, at the expense of the majority, contradicting Islamic principles of justice and equality. The capture of a potential emergence of an alternative set of standards is aided by internal agents – political elites and pragmatic IFIs' practitioners. On critique based on

A limitation of this paper, is that it only relies on literature and adopted the political economy lens of neoliberalism. Future studies may use interviews and adopt different theories to explain the phenomenon.

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