
1 Introduction: accounting and development

*Trevor Hopper, Mathew Tsamenyi, Shahzad Uddin and
Danture Wickramasinghe*

The motivation for this book lay in the difficulties of trying to publish research on accounting in less developed countries (LDCs). Editors often responded that it was desirable and worthy but should seek outlets in specialist development or international accounting journals. This infuriated us, for most of the world's population live in poor countries, their accounting needs are at least as great as if not more than in rich countries, so-called cutting-edge research was (and still is) heavily concentrated on serving large commercial and state organizations in rich countries, and although accounting policies were problematic in LDCs they were neglected by researchers.

Fortunately, over the past decade the field has been opening up. A sprinkling of accounting scholars worldwide have brought substantive contributions. Major journals, especially the *Accounting, Auditing and Accountability Journal*, *Accounting, Organizations and Society* and *Critical Perspectives on Accounting*, have pioneered work in this area aided and abetted by 'international accounting' journals and the newly launched *Journal of Accounting in Emerging Economies* and its companion *Research on Accounting and Emerging Economies*. A network of scholars is evolving through workshops like the Accounting and Subalternity Conference at York University, Canada, in 2007, and those of the British Accounting Association special interest group Accounting in Less Developed and Emerging Economies. Links are being established with accounting academics in LDCs, development studies researchers, and 'third sector' institutions such as non-governmental organizations (NGOs). However, this work is still in its infancy. Much more is required. Accounting scholars in rich and poor country universities need to build better bridges amongst themselves, and with academics in other disciplines, and transnational organizations that diffuse accounting knowledge, policy and practice in LDCs such as the World Bank, accounting professional institutions, international accounting standard setting bodies, the accounting consultancy industry and government institutions.

This book seeks to further these ends. The aspiration is that reviews of research on vital accounting topics for LDCs from leading researchers and practitioners will diffuse extant knowledge and stimulate further research and debate. The target audiences include: active and prospective researchers in accounting and related areas in rich and poor countries alike; and accounting policy-makers and practitioners in global and local institutions. The book is not definitive. The field is too under-researched and immature to claim this. Moreover, the contents are heavily weighted to accounting research in leading 'Western' journals; contributions from policy-makers and researchers in fields such as development economics and public administration, and from academics located in LDCs have not been trawled extensively. Such work is essential for future progress, but it lies beyond the scope and capacity of this book.

2 *Handbook of accounting and development*

For some readers the contents of this book may be a surprise, especially if accounting is perceived as essentially technical and unproblematic. Our definition of accounting is not governed by that propounded by professional bodies, practice and academia in the West, which unduly concentrates on the private interests of large corporations and elites, and hence neglects many concerns of poor countries. Instead we see accounting as being involved in the accountability of all constituents in society, and providing information for planning and control directed at broader development goals. Thus accounting is not just an economic tool but also a social and political means of helping to improve the quality of life of poor people and to enable them to gain greater participation in democracies; it is present in social interaction not just formal reports, in words not just numbers, and should monitor not just financial flows but also social and environmental factors.

Our contributors, drawn from across the world, had a free hand to write on their assigned topic. The results illustrate how accounting practices and technical issues are embedded in a multitude of theoretical, ethical, political and social issues. The editors welcome further disputation about these contributions, in the hope that further debate will give more 'voice' to reformers wishing to create accounting and accountability systems that further development goals in poor countries.

ACCOUNTING FOR EFFICIENCY OR DEVELOPMENT?

Accounting is often presumed to consist of techniques that provide objective, value-free measurements that render individuals and organizations controllable and accountable. The emphasis lies on formality, legal-rational bureaucracy, and efficient resource utilization. Viewing accounting as a pre-defined technology has validity, as many of its techniques and systems appear portable across countries, whether rich or poor. Research has not discovered accounting systems unique to LDCs. However, accounting systems do not unequivocally flow from rational choice or environmental determinants but are shaped, *inter alia*, by other controls over production and labour, managerial choices and political conflicts within or without the organization (Chapter 12). This requires multi-disciplinary, multi-level and multi-theoretical analyses.

The contributions to this book reflect this: theoretically they span from economic and market studies to political economy and constructivism. Institutionally they span from the role of transnational organizations to the involvement of poor and marginalized beneficiaries. Throughout, an observation is that accounting is socially and politically constructed and its practice is intertwined with culture, local and global politics, institutions, and economic factors. Increased transparency and accountability are not just 'technical' issues (Chapter 2); nor can the effectiveness of accounting be judged merely by efficiency and profitability criteria. Rather it should be appraised against its contribution to broader development aims: corruption can flourish in functioning market economies, and starvation can exist alongside abundance (Chapter 13).

A common research finding is that the expectations of policy-makers instituting often predetermined and imported formal accounting systems and regulations are not met. Systems are often ignored, or used for purposes other than those intended, and users often change them. The point is that accounting practice is rooted in social process:

actors can improvise, negotiate and translate accounting systems during their implementation and usage. The formal and the social cannot be divorced. For example, accounting may appear absent in microfinance loan assessment and repayments, but in reality simple, group-based systems act as a substitute for formal conventional accounting. Such socialized systems are a form of accounting, albeit in a less conventional format (Chapter 10). Moreover, the influence of users and intended beneficiaries within social interaction should not be seen as detrimental but an opportunity to promote more inclusive and participatory systems that grant civil society and beneficiaries a 'voice' (Chapter 16). Pluralistic and dialogic systems that are sensitive to inequalities of power between constituents can further democracy. Similarly, examining corruption dynamically through an approach that incorporates social construction may have benefits. A static approach confined to supporting legal individual freedoms may inadvertently reinforce inequalities, whereas a dynamic stance that enables people to resist may better protect freedoms, further the public interest and incorporate broader social factors (Chapter 13). Failure to involve local participants and to tailor accounting systems and decisions to local circumstances can have unanticipated and unsought consequences. For example, privatizations encouraged by the World Bank and the International Monetary Fund (IMF) have encouraged management accounting systems that enhance enterprise efficiency and profitability but not necessarily development goals such as increased government revenue, more equitable income distribution, less corruption, greater employment, a better quality of working life, and more transparent and accountable governance (Chapter 12).

Too often accounting and tax policies in LDCs are dominated by fiscal and economic considerations. This can downplay the potential contributions by affected parties, especially within civil society, and the importance of social, environmental and accountability dimensions of development. Conventional accounting is business oriented. Insofar as it incorporates social and environmental factors, they are treated as 'externalities' and 'technical' issues, which brackets out the politics surrounding them (Chapter 16). For example, the social and environmental effects of mining in Mongolia and tourism in Vanuatu have been neglected. Economic liberalization that outstripped effective accountability and redistributive policies brought extensive offshore ownership and control of the economy, increased social division between white and black people, rich and poor, and foreigners and the indigenous population, and major ecological problems (Chapter 16).

A recurring theme throughout the book is that accounting in LDCs involves moral and ethical issues, especially regarding a commitment to accountability, transparency, democracy, and giving influence to civil society. Whether contemporary neo-liberal development approaches that emphasize the pursuit of self-interest and money-making can constitute moral and ethical bedrocks for contemporary policies is questioned (Chapter 13). Ethics and morals are vital given the asymmetrical power between LDCs and transnational institutions, multinational corporations (MNCs) and powerful investors (Chapter 13) which has led to LDCs' accounting systems essentially being extensions of those in industrialized countries (Chapter 4). Nevertheless, accounting institutions and the operation of accounting systems in LDCs still retain a legacy from colonialism and Cold War politics (Chapter 13), and it must be recognized that despite the current global financial crisis emanating from rich countries many LDCs have been hardest hit

(Chapter 3). Current economic problems make rich countries' ethical and moral obligations to poor ones more, not less, pressing.

DRIVERS OF ACCOUNTING CHANGE

Transnational Institutions

There are significant asymmetries of power between LDCs and external transnational institutions, especially the Organisation for Economic Co-operation and Development (OECD), the United Nations Conference on Trade and Development (UNCTAD), the World Bank, the World Trade Organization (WTO) and the IMF. Arguably, transnational institutions have shaped accounting in the global south (Chapter 4). For example, the World Bank and IMF assess whether national auditing standards and institutional environments are consistent with international standards on auditing established by the International Federation of Accountants (IFAC) (Chapter 7). Transnational institutions are complex institutions, but they shape who the key international accounting players are. These rarely favour LDCs; for example, members of the 'Big Four' accounting firms may be over-represented on transnational institutions' boards and committees despite potential conflicts of interests such as setting standards for their own work, and developing liberal trade policies favouring large financial service firms (Chapter 4). In addition, membership of international accounting and auditing standard setting bodies and representatives of transnational institutions often overlap (Chapter 4). This is worrying for LDCs whose interests may be different.

There are two views on the contribution of transnational institutions to accounting in LDCs. The first is that they work hard to achieve a level playing field and they formulate consistent standards that facilitate development and reduce risk for donors acting at a distance – whether geographical or cultural. The counter-argument is that transnational institutions shape accounting for their own purposes, making aid contingent on adoption of liberal trade agendas and associated accounting conditions, and bypass the local democratic process. Critics argue that this has negative consequences for LDCs: it may undermine traditional social norms, inhibit cross-pollination of practices, destroy convivial work relationships, and produce hybridized and unexpected arrangements (Chapter 4, Chapter 7). For example, the World Bank and IMF have made privatization policies an inescapable condition of loans (Chapter 12), and they have over-emphasized the technical at the expense of securing political consensus and goodwill when coordinating tax reforms within LDCs (Chapter 15).

Global Standard Setters

The international harmonization of accounting and auditing emanates from accounting institutions, especially the IFAC and the International Accounting Standards Board (IASB)¹ (Chapter 7). Whereas IFAC membership is open and its aims include serving the public interest and ethical concerns, the IASB is a private company and its members come largely from large accounting firms. This gives rise to concerns that LDCs have ceded accounting governance and regulation to external institutions that elevate rich

country and shareholders' interests above those of other constituencies (Chapter 4). Hopefully the neglect of LDCs is becoming more recognized. Significantly, at the 2009–10 G20 summit, the World Bank stated that development of local accounting professions was essential for financial stability and consistent international reporting and the IASB should pay more attention to emerging economies, SMEs, and financial services to the poor (Chapter 2).

IFAC seeks worldwide development of an accounting profession with harmonized standards to provide services of consistently high standards in the public interest (Chapter 7). Many LDCs are members of IFAC, and they adopt its requirements of national auditing bodies on matters like audit quality, audit education, skills and competence of auditors, codes of ethics, self-regulation and disciplinary procedures, international auditing standards, and public sector auditing. However, how and whether they are enacted are shaped by local socio-political characteristics (Chapter 7). The lack of capital market monitoring allied to indigenous auditors of poor reputation and working for low fees frustrates the development of auditing to international standards (Chapter 6). Auditing standards may be adopted by LDCs because of external institutional pressures, but compliance and audit quality may remain poor (Chapter 7).

The IASB also seeks global convergence of accounting by issuing International Financial Reporting Standards (IFRSs).² The argument is that harmonization removes divergence and thence barriers to economic integration and trade (Chapter 8). However, Anglo-American accounting dominates standards. They presume that the legal, institutional and policy conditions that support good regulatory practice are in place. This is often not so in LDCs. Nevertheless, many LDCs adopt IFRSs, for it is cheap to do so and they lack the resources or capacity to develop standards themselves. However, if the IFRSs are not made mandatory and supported by necessary legal and regulatory changes they may not be adhered to (Chapter 2, Chapter 8). Thus in many LDCs IFRS adoption becomes ceremonial (Chapter 4) and is a signal of legitimacy: it is cheap and politically correct but may have little effect on the ground, especially in small and medium-sized indigenous enterprises (Chapter 6). For example, the adoption of IFRSs in Bangladesh was initiated by grants from transnational institutions, but implementation has been messy. Local accountants and many business people were unconvinced of their worth, and compliance has been sporadic.

Such reactions are understandable given the lack of evidence that IFRSs are relevant to LDCs (Chapter 6) or will improve the quality of accounting and auditing without legal and regulatory changes (Chapter 8). Indeed, the conceptual framework underpinning universal accounting standards may be alien to non-Western LDCs; for instance, ethics may be local not international, especially where commercial relationships are more communitarian or 'family' based, for example *guanxi* (Chapter 6). Principles-based IFRSs are not universally accepted: their scope for diversity may frustrate comparability, and cultural and linguistic differences bring different interpretations of inherently uncertain accounting expressions.

Also, universal accounting standards aimed at lubricating global trade may not be pertinent to LDCs with a more interventionist state than richer market-based economies. If capital markets are small or non-existent, and investors are unsophisticated, such complex accounting information may be unimportant (Chapter 6). Instead they want accounting data to input into centralized state models governing macro-economic

policies. However, IFRSs have not been internally consistent, which can compound inequities affecting LDCs. For example, despite the universal framework of accounting and auditing emphasizing global trade and convergence, IFRSs on intra-company trade, transfer prices and global consolidation have not required economic activities and taxes paid in individual countries to be reported (Chapter 3). Paradoxically, as more LDCs adopt IFRSs, the influence of multinational corporations and financial secrecy in jurisdictions has grown. However, this, and the Anglo-American influence on the IASB, is being increasingly questioned (Chapter 3). For example, it is alleged that the adoption of 'fair value' lay at the root of the current global economic crisis (Chapter 6).

Capital Markets

The positive association of capital market development with economic growth is evident, but whether this promotes better accounting standards and development goals is less clear (Chapter 8). Financial markets may allocate capital resources better, foster technical innovation, and encourage more investment through risk-sharing and closer monitoring of managers. But on the other hand it may exacerbate income inequality, as only those with collateral or listed companies may get loans. This may lower the number of customers and inhibit physical and human capital development and thus stymie financial development (Chapter 8). If economic growth from financial developments is to reduce poverty then income inequalities must be reduced (Chapter 8).

Nevertheless, there is tentative theoretical and empirical evidence that financial reporting and economic performance are linked. The case for liberalizing LDC economies rests partly on presumptions that capital markets will demand and police the disclosure of high-quality financial information from firms. However, in many LDCs the regulation of financial disclosures by regulators such as stock exchange commissions may be weak and ineffective, sometimes because of inadequate staff skills and numbers (Chapter 7). Capital markets can be primitive or non-existent. For example, in Bangladesh excessive liquidity makes bank loans easy to obtain; and political patronage, weak bank regulation, and ineffective law enforcement lead to a 'default culture' and a stagnant market for shares (Chapter 7). Compliance with accounting regulations in LDCs is often linked to company size, profitability and multinational status (Chapter 8), possibly because such firms are more concerned with their reputation in capital markets and the repercussions of non-compliance. However, smaller, indigenous and family-owned businesses may be less concerned, especially if there is a weak regulatory and legal system governing the quality of financial reporting. If legal institutions that enforce property rights, and accounting regulation and auditing are ineffective then potential benefits from improved accounting, such as reduced agency problems between insiders and outsiders, greater managerial concerns with reputation, more public analysts' reports, and more active investors willing to exert control over firms, will not materialize. For example, a weak legal environment reduces demand for financial information but may increase demand for private information collected by analysts (Chapter 8).

Unlike the inconclusive results of liberalization on financial accounting in LDCs, there is evidence that privatizations bring quicker, more reliable, computerized management accounting controls that better link marketing and production. However, the lack of effective regulation could dissipate gains made from increased efficiency. In some

instances external accountability declined, respect for consumer and employee rights was violated, financial transgressions took place, and coercive controls ensued (Chapter 12). This was especially marked in smaller, family-controlled firms subject to weak regulation. In summary, domestic capital markets may and could aid accounting reform in LDCs, but it is naïve to assume they will do so in the foreseeable future or to rely on them to meet broader development goals.

However, capital markets outside LDCs are important for LDCs. Stock exchanges in rich countries, especially the City of London and the USA, influence accounting in LDCs, especially via their demands on companies with or seeking overseas listing. This can act as a catalyst for establishing best practice and developing accounting capacity in LDCs. However, such capital markets are also major impediments to development when they act as hubs for unregulated finance and are major users of offshore financial centres with zero or near zero tax, secrecy, and regulatory environments oriented to non-residents and overseas users. Such practices are a source of lost revenue for rich and poor countries alike, but the effects are especially acute for poor countries. Illicit financial flows from LDCs to Western capital markets like London, using techniques like cross-border invoicing, can dwarf aid by a factor of eight. In addition, transfer pricing abuses by international firms listed on Western stock markets significantly reduce LDCs' tax take (though many MNCs comply, sometimes over-stringently, to protect their reputation) (Chapter 15). The financial repercussions upon LDCs of ethically dubious but not illegal practices by Western financial institutions and possible avenues of rectification are masked by the governments of rich countries retaining confidentiality of tax issues, rarely disclosing offenders and imposing low penalties for tax transgressors (Chapter 15). For example, the lack of publicly available data in rich countries concerning large-scale tax evasion through transfer pricing, due in part to IFRSs that neglect these matters, has hindered investigations of the scale of this abuse and stifled debate about it (Chapter 2, Chapter 15).

The Accounting Profession

The accounting profession in many LDCs is a curious 'hybrid' of the legacy of empire and independence struggles. The result can be a profession divided by class, race and ethnicity, and between Western and indigenous professional associations (Chapter 5). After independence many LDCs failed to establish a national accounting profession. Reasons for this include: their dependence on Western capital; institutionalization of Western training and professional bodies; a cringe factor, for example 'British is best'; the dominance of international accounting firms and professional associations like the Association of Chartered Certified Accountants (ACCA); global corporations preferring international accounting firms for reasons of reputation and location of their listing; and local elites wishing to preserve privileges and career mobility based on English language, rich country qualifications (Chapter 5).

The reliance of LDCs upon Western professional associations has furthered their dependency on Anglo-American accounting and harmonized accounting and auditing standards. This has come at a cost. The shortage of accountants in many LDCs is linked to failed local professionalization strategies. Attempts to build national professional institutes often withered in the face of competition from Western bodies and/or local

associations that copied them (Chapter 5). This has inclined local accounting professionals and associations to neglect reforms tailored to local circumstances, for example improving public sector and small business accounting – vital issues in LDCs. Moreover, international trade conditions for financial services have prevented LDCs from protecting their infant accounting industries from UK and US competition, or insisting on residency for professional certification, or requiring international accounting firms to follow extraordinary compliance measures (Chapter 4). The failure to develop effective local accounting associations has contributed to the lack of competent auditors and accountants in LDCs, the low status of the accounting profession, poor accounting education and training, lack of adherence to standards, and even accountants' collusion in corruption (Chapter 7).

Several contributors are sceptical that first world professional accounting bodies can act as a bulwark against dictatorship and poverty. They note their reluctance to campaign for increased international financial transparency and monitoring of tax havens (Chapter 3), and how members' work on shifting residences arguably violates the moral and civic duties of professionals, and has helped foster corruption, undermined the state and raised systemic risk (Chapter 3). Large Western accounting firms' revenues (mainly from consulting not auditing) can outstrip that of LDC governments, and members of the 'Big Four' accounting firms dominate international accounting institutions. Consequently, LDCs have little potential influence over accounting policies (Chapter 9). There are signs of concern about this. For example, following criticisms of its neglect of LDCs, IFAC established the International Forum on Accounting Development in 1999 to promote transparent reporting, high-quality auditing, and a strong accounting profession in LDCs (Chapter 6).

Donors and Third Sector Organizations

Many LDCs depend on financial aid from external donors including the World Bank and its acolytes, foreign government agencies, and non-governmental organizations (NGOs). All donors want accounting systems that monitor whether funds granted to LDCs are used as intended, reduce the donor's fiduciary risk, and ensure better accountability, planning and control, especially in the public sector. Donors' stringent accounting requirements emanate principally from their own needs to be accountable. However, these requirements help improve governance more generally in LDCs by establishing good practice, demonstrating how development priorities can be determined by cost-benefit analysis, developing better data for decisions on development issues, and increasing civil society and stakeholders' involvement (Chapter 2).

External aid providers, frustrated by bureaucratic, inefficient and sometimes corrupt government organizations, have increasingly turned to NGOs to deliver services in fields like education and health, either by contracting with them directly or by insisting that governments dispense aid through them. The numbers, scale and scope of NGOs have dramatically increased over the past three decades. Some claim that NGOs represent a 'Third Way' of delivering development, as they are neither private enterprises nor government entities. Moreover, NGOs claim to represent, advocate for and deliver services primarily to poor and marginal people, and many seek to increase civil society involvement and influence to further increased democracy. Many have strong ethical commitments

and are effective and efficient, but they can be controversial and raise unusual accounting issues. At the margins some are opportunistic and corrupt yet the regulation and financial reporting requirements under conventional accounting for NGOs has been neglected by policy-makers and researchers. This needs redress but, given many NGOs' commitment to broader social goals, their accountability needs to go beyond conventional accounting methods to money and power (funders and the state) (Chapter 4). Indeed, the worry is that conventional financial accounting systems may divert NGOs from their broader aims such as promoting learning or may fail to reflect criteria pertinent to NGOs' socio-political mission. Also, as many NGOs claim to represent, advocate for, and act on behalf of civil society, especially poor and marginalized sectors, accountability to beneficiaries and society is important. Failure in this respect opens NGOs up to charges of hypocrisy; that is, they advocate greater democracy and civil society participation in local and national governance but they do not practise it themselves. Such concerns have brought innovative and distinct accounting developments, for example a rights-based approach that incorporates downward and holistic accounting, raises social, ethical and environmental issues, and monitors whether projects are enhancing these (Chapter 9); and designing accountability systems that grant civil society and especially beneficiaries a greater 'voice', advance pluralistic democracy, and overcome differences in power, language and literacy between constituencies (Chapter 16). These are challenging tasks and may fail in the face of beneficiary incapacity, neglect by donors, differential power relations and deference, and resistance by some NGOs (Chapter 9). Nevertheless, NGOs offer exceptional possibilities for developing accounting reforms that promote development goals and democracy, unlike many state and market organizations.

Microfinance, especially microcredit, is an important and growing activity of many NGOs (although it is not exclusive to them). It raises issues that resonate with those discussed above with respect to furthering broader goals, especially with respect to empowering rural poor women and reducing poverty through self-help. The challenge of developing accountability to marginalized, poorly educated and sometimes illiterate people, and giving them voice and potentially greater power raises exciting possibilities for developing new forms of accounting to once neglected constituencies; for example, developing suitable training in basic book-keeping and budgeting, and using new technology such as the internet and mobile phone banking to ease the time and costs of transactions are exciting issues that have been neglected in accounting research (Chapter 10). Current accountability and control systems for microfinance that rely on monitoring by small groups of potential beneficiaries are controversial. As Chapter 10 argues, they constitute forms of governance that make new groups visible, calculable and economic subjects. Their danger is that they may privatize and shift the costs of control to the individual and community and present poverty as an individual and economic rather than a political issue involving the state, and leave beneficiaries open to uncertainties beyond their control. The issue is not whether microfinance is good or bad but how its administration policies combine sources of social, economic and cultural capital, as the cases in Chapter 5 illustrate. If microfinance organizations pursue financial and growth goals at the cost of the poor, neglect social and political programmes, and have weak accountability to beneficiaries, then accounting systems based on group norms may render groups such as poor marginalized women open to abuse and shame (Chapter 10). At worst microfinance may prove exploitative. The challenge is to devise bottom-up

accountability and accounting systems that prevent this and meet the development aspirations of microfinance's originators.

WAYS FORWARD

It is difficult and dangerous to generalize about accounting across LDCs given the differences in local circumstances. Indeed, whether accounting helps development may be as much an article of faith as proven fact (Chapter 4). However, the contributions in this book, whilst not purporting that accounting is the salvation of poverty, infer that it is an essential cog in the development process that warrants more attention from all parties involved. Several means of improving accounting in LDCs recur throughout the chapters, namely improving accounting capacity within LDCs, adopting solutions based on local circumstances and involvement rather than externally imposed solutions based on Western ideologies and practices, strengthening the contribution of LDC states, and improving global coordination.

Accounting Capacity

The need to build accounting capacity in LDCs is generally accepted, especially by external institutions. This is a long-term project: short-term results will be few (Chapter 2). Also, it can figure low on the agenda of domestic politicians, who may lack expertise in or appreciation of accounting issues. Indeed, especially if corruption and political patronage abound, politicians may feel threatened by accounting reforms. However, strategies to reduce corruption are no longer a taboo topic in many LDCs, and greater democratization is pushing this subject centre stage. In that case, the need for accounting reform will increase.

Creating sufficient skilled practitioners with a good knowledge of accountancy and information technology requires better education and training at all levels – from technician to academic (Chapter 14). However, such education and training in universities and technical institutes of LDCs are frequently inadequate. There are shortages of places, poor and outdated premises, technologies and teaching materials, poorly remunerated staff, and little top-class research capacity. When teaching is in the local language, access to superior material in English is stymied and requires expensive translations (Chapter 7).

Given the deficiencies of accounting education it is not surprising that overseas professional bodies have stepped in to fill the gap. This has merits: syllabi are more up to date; professional examination standards are maintained; it removes professional controversies from domestic politics; and the qualifications are internationally recognized. However, it has a cost. Curricula are not adapted to the local terrain, and thus students may study say tax law in the UK rather than that of their own country, and use case studies on Western rather than domestic companies and situations. This compounds the problem of issues pertinent to LDCs being neglected, for example public sector accounting, management accounting, accounting for small businesses and micro-enterprises, and the accountability of organizations when capital markets are weak or non-existent. Also, reliance on overseas associations for giving credentials and training weakens local

associations that could better represent local interests nationally and internationally, and provide training and services better tailored to local needs.

Unilateral Western Best Practice versus Local Incrementalism

It is difficult for an LDC to formulate its own accounting institutions, standards and systems. In actuality LDCs are influenced by their historical legacy of colonialism, for example whether they follow Francophone or Anglo-American systems, resident multinational corporations, international accounting institutions, and transnational institutions, often via special conditions in aid agreements (Chapter 8). LDCs' reliance on external agencies has encouraged widespread adoption of Western models. Initially these were based on central state planning and control consistent with the socialist policies of newly liberated regimes after the Second World War. However, they were also endorsed by Western development experts and financial institutions like the World Bank.

The failures of central planning, and the cessation of the 'Cold War' following the collapse of Eastern European communist regimes left fertile ground for market solutions often propagated as conditions of World Bank loan approvals (Chapter 12). However, Western accounting, auditing and corporate governance mechanisms developed in the context of developed economies require efficient capital markets, investor sophistication, and effective second-order institutions such as efficient regulators and judiciary (Chapter 7). This is often not so in most LDCs. For example, the auditing environment of Bangladesh is characterized by a relatively small number of publicly traded companies, many owned by families and with a high ownership concentration, weak incentives for companies to go public, poor perception of the skills of auditors, and an absence of appropriate monitoring and effective second-order institutions (Chapter 7).

The cultural and geographical distance of many accounting advisors has encouraged over-reliance on theoretical universal prescriptions that lack local input and consideration of local needs and constraints, for example unilateral adoption of IMF model income tax and VAT codes (Chapter 14) and 'new public management' (NPM) (Chapter 11). Macro-based analyses, say of corruption and privatization, are useful, but solutions need to be locally adapted and not follow universal global prescriptions, which too often is the case (Chapter 13). For example, macro-economic studies of privatization are useful for determining general performance outcomes (though they often are based on unreliable accounting information), but micro-studies of accounting in action are required to make sound conclusions and policies (Chapter 12). They often reveal sensitive policy options. For example, many privatized enterprises are sold to foreign investors with minimal participation by indigenous investors. However, often locals have insufficient capital, firms are family based, and domestic regulatory structures are inadequate. Political patronage and weak financial markets may encourage financial laxity, a lack of transparency and even irregular financial behaviour, whereas foreign-owned and overseas-listed purchasers may employ superior accounting practices and act as a catalyst and model for local firms (Chapter 12). Whether foreign or local ownership is conducive to improving accounting and accountability requires careful analysis according to domestic circumstances.

The failure to secure domestic inputs and consideration of local circumstances can lead to the apparent presence of sound accounting which on closer inspection is ignored

and is merely symbolic and ceremonial (Chapter 4). This is also the case for taxation policies. Many LDCs have been subject to 'tax imperialism' resulting in over-complex and inappropriate policies. At one extremity this has resulted in LDCs adopting sophisticated Western practices based on accounting principles to tax multinational corporations, and at the other extremity poor people such as those engaged in micro-businesses, hawkers and peasants having to render tax returns relying on book-keeping (Chapter 14). Tax systems must be realistic: they should reflect income distribution, taxpayer sophistication, and ease of collection. Over-complex systems encourage manipulation, bribery and corruption. Simpler systems that make tax deductions at source for wage and salary earners, and presumptive taxes based on profits for large corporations and turnover for small businesses may prove more effective, partly because they avoid the need for complex accounting records or complex tax adjustments (Chapter 14).

Similarly, NPM solutions have often been conditions in structural adjustment programmes. These tend to advocate three-year budgets, a concentration on outputs not inputs, balanced budgets, shifts to pro-poor programmes, more computerization to better track expenditure and improve transparency and accountability, and more flexible decentralized planning and control. This is admirable in theory but requires: clear national aims, objectives and strategies; a comprehensive, integrated, technically effective budget system; skilled personnel with ownership and commitment; an effective steering group; sound design; capable project management; and adequate resources. The practicality may be demoralized staff, lower pay, cuts, emigration of the best staff, and ultimately more reliance on consultants. The results can be disappointing, that is, no improved macro-economic balance, no efficiency gains and no greater budget predictability (Chapter 11). Grandiose computerized and integrated public finance management systems and accrual accounting recommended by international consultants unfamiliar with the local situation have often proved too complex (Chapter 2).

Instead of costly and complex systems beyond an LDC's accounting capacity, greater building on existing systems, adapting best practice to local conditions, and establishing that new systems work in practice are required (Chapter 11). Sequenced reforms and getting the basics right may be more important than installing state-of-the-art Western systems; for example, a reliable accounting system is needed before an integrated one. Given that many accounting systems fail because of implementation problems rather than technical design issues, much more needs to be known about what works (and does not) at what stage and under which circumstances (Chapter 2). More detailed understanding of accounting change processes in LDCs is required, and reforms need to be made incrementally in the light of such knowledge gleaned from the field.

Above all, accounting reforms need to keep things simple. For example, harmonizing donors' accounting requirements can diminish the financial complexity facing domestic NGOs and government departments (Chapter 2). Similarly, tax forms and regulations written in straightforward language reinforced with detailed illustrations, websites and one-stop-shop support centres, the abolition of personal tax allowances and instead concentrating on initial tax exemptions for the poor, basing tax on accounting profit calculations to avoid tax adjustments, and flat rather than progressive tax rates can reduce tax evasion and collection costs (Chapter 14). More complicated rules and self-assessment for tax are better restricted to sophisticated, high-income sectors and large corporations.

Strengthened States

Frequently the state is viewed as an impediment to development. It is assumed that poor governance and administration by ‘unprincipled’ public officials lead to poor growth and poverty. Consequently many external agencies have prioritized strengthening individual and property rights, and market solutions and financial stability over community concerns and state actions. The aim has been to establish states that concentrate on regulation and infrastructure and leave non-state organizations to deliver services (Chapter 4). However, weak states may be a consequence of poverty. If so, then strengthening the state may be a key priority (Chapter 11). Given the shortages of capital and highly skilled personnel, weak markets, and LDCs’ exposure to natural or economic disasters, the state may be the most effective means of planning and delivering development, including strengthening markets, and encouraging greater democracy with more civil society involvement. For example, effective taxation relies on transparent, equitable and sound government (Chapter 6). Also, given that an LDC’s accounting profession may be weak then state intervention into accounting is required: reliable accounting may need mandatory laws and regulations – not self-regulation. Similarly, if courts provide weak protection then state intervention may be required (Chapter 6).

Getting governments to regard accounting as important and enforce good regulatory practices remains a problem – scandals still abound – but this is changing (Chapter 2, Chapter 7).

External institutions are increasingly recognizing the importance of states. For example, the Paris Declaration in 2005 stated that donors’ accounting and funding should strengthen LDC states and not just ring-fence projects (Chapter 2). This reflected concerns that donors’ policies had inadvertently weakened states, reduced their accounting capacity, inhibited better public finance management (Chapter 2) and weakened their tax systems. This has rendered LDCs prone to conflict and poor governance and can undermine the legitimacy of the state (Chapter 3). Consequently, more donors have directly placed funds into the treasury of LDCs to further state building and democracy (Chapter 3), but difficulties remain; for example, risk constraints requiring donors to use their own accounting systems have prohibited them from directly placing funds with LDC governments even when the latter have improved their accounting (Chapter 2). However, direct funding should extend beyond propping up the status quo and strengthening states to actively promoting more democracy. For example, to reduce corruption civil society needs mobilization, but locals cannot gain a voice without access to more financial information (Chapter 13).

Strengthening states and improving accounting does not mean unilateral and isolated national action but requires cooperation globally amongst interested parties. For example, it is in the mutual interest of most rich and poor countries to avoid tax competition, coordinate corporate tax arrangements and act against tax havens (Chapter 3). The latter’s effect on LDCs is not clear, but pursuit of rent seeking rather than productive behaviour may encourage political corruption on the part of elites. Subjects are less willing to pay taxes if elites do not pay. There is a need for coordinated cross-national information sharing on transfer pricing and cooperation over bilateral air passenger duties with the United Nations arbitrating disputes (Chapter 15). Similarly, Western accounting professions should assist rather than compete with LDC attempts to create

their own professional bodies and accounting capacity. As noted, we believe that helping reform accounting in poor countries is a moral and ethical imperative for all involved in accounting, and we hope that our book will help advance this.

NOTES

1. Prior to 2001 it was called the International Accounting Standards Committee (IASC).
2. Before 2001 these were called International Accounting Standards (IASs).