Standardizing the State: the IPSASB's Role in Transnational Private Regulation

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Abstract

The IPSASB, a private sector body, has quietly attained dominance in the field of public sector financial reporting: nearly 50% of countries, and all major IGOs, draw on its standards in some form. The astounding success of these private standards in public sector accounting is inherently puzzling, but is made even more so by the meaningful distributional consequences within societies adopting IPSAS: the standards create winners and losers among parliaments, politicians, and within the bureaucracy, and have the potential to mechanistically drive financial policymaking and financialization, thus benefiting accountants and big accounting firms while potentially disadvantaging labor and taking discretion away from elected representatives.

This puzzling regulatory relationship is understudied in the literature. Through an in-depth case study of this organization, this thesis explains why and how private actors successfully "standardize" states. Drawing on over 3400 pages of Board minutes, 37 elite interviews, and ethnographic observation of three in-person Board meetings, it argues that private rulers generate demand for their standards by pushing these standards through international and domestic "supply chains," targeting both IGOs and national and subnational bodies, while depicting them as universally applicable and apolitical – even if they have clear distributional implications. In doing so, the thesis makes several contributions to the literature. First, it uncovers an understudied phenomenon in transnational private regulation (TPR), in which the state itself is a target of rulemaking by a private actor. Second, it provides for the first time an empirical exploration of a case of private regulation of the public sector. Introducing the IPSASB as its case, the thesis expands existing literature on financial reporting, filling and important empirical gap. Finally, it develops a novel theory for this new regulatory arrangement which puts the suppliers of standards in the center of analysis.

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Abbreviations

ACCA	Association of Chartered Certified Accountants
ADB	Asian Development Bank
ASB	Accounting Standards Board (South Africa)
BPM	Balance of Payments Manual (IMF)
CAG	Consultative Advisory Group (advisory group for IPSASB)
CIGAR	Comparative International Governmental Accounting Research
CIPFA	Chartered Institute of Public Finance and Accountancy
CRA	credit rating agency
DIS	Draft International Standard (IBSASB)
ECJ	European Court of Justice
EDP	Excessive Debt Procured (EU)
EDS	External Debt Statistics (IMF)
ESA	European System of Accounts (EU)
EPSAS	European Public Sector Accounting Standards
EY	Ernst & Young
FEE	Federation of European Accountants
GAAP	generally accepted accounting practices
GAO	U.S. General Audit Office
GASB	U.S. Governmental Accounting Standards Board
GATS	General Agreement on Tariffs and Services
GATT	General Agreement on Tariffs and Trade
GDP	gross domestic product
GFS	Government Finance Statistics (IMF)
GFSM	Government Finance Statistics Manual
GHG	Greenhouse gas
GPFS	general purpose financial statements
IAASB	International Auditing and Assurance Standards Board
IAESB	International Accounting Education Standards Board
IASB	International Account Standards Board
IASC	International Accounting Standards Committee
IESBA	International Ethics Standards Board for Accountants
IFAC	International Federation of Accountants
IFAD	International Forum for Accountancy Development (IFAC)
IFC	International Finance Corporation
IFRS	International Financial Reporting Standards
IGO	inter-governmental organization
IMF	International Monetary Fund
INTOSAI	International Organization of Supreme Audit Institutions
IOSCO	International Organization of Securities Commissions
IPSAS	International Public Sector Accounting Standards
IPSASB	International Public Sector Accounting Standards Board
IRSPM	International Research Society for Public Management
ISAR	International Standards of Accounting and Reporting
ISO	International Organization for Standardization
ISWGNA	Inter-Secretariat Working Group on National Accounts
IT	information technology
KPMG	KPMG International Ltd.

OECD	Organization for Economic Cooperation and Development
MDBs	multilateral development banks
MG	Monitoring Group (IFAC)
MFSM	Monetary and Financial Statistics Manual (IMF)
MOSAIC	Memorandum of Understanding to Strengthen Accountancy and Improve Collaboration
NGO	non-governmental organization
NPM	New Public Management
NSS	national standard-setters
NZSF	New Zealand Superannuation Fund
PAO	professional accountancy organizations
PAYG	pay-as-you-go
PIC	Public Interest Committee (advisory group for IPSASB)
PIOB	Public Interest Oversight Board (IFAC)
PFM	Public Financial Management
PSAB	Public Sector Accounting Board (Canada)
PSC	Public Sector Committee (IBSASB predecessor)
PwC	PricewaterhouseCoopers
RIT	Regulatory Intermediary Theory
RSPCA	Royal Society for the Prevention of Cruelty to Animals
SDG	UN Sustainable Development Goals
SMO	Statements of Membership Obligations (for IFAC)
SNA	System of National Accounts (UN)
TAC	Transnational Auditors Committee (IFAC)
TFHPSA	Task Force on Harmonization of Public Sector Accounting (IMF)
TPR	transnational private regulation
UN	United Nations
UNCTAD	United Nation Conference on Trade and Development
WRI	World Resources Institute
WTO	World Trade Organization
XRB	External Reporting Board (New Zealand)

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CHAPTER 1: INTRODUCTION

In 2015, Brazil was reeling from a deep financial crisis. The country was facing negative growth, high inflation, and a downgrade of its credit rating to junk status. To regain control of the spiraling economy, President Dilma Rousseff announced unpopular austerity measures, including budget cuts and tax increases. Defending the measures on national TV, she argued they were necessary "to rein in expenses to keep out budget from going out of control".[1] To make matters worse for the President, at the same time, Brazil's Auditor General was launching a probe of politicians in a major corruption scandal –threatening to swallow up Dima Rousseff's presidency.[2] Over one million people, unhappy over rising prices and the potentially corrupt president, took to the streets across the country shouting "Dilma out".[3] In Brasilia, over 50,000 were marching on the Palácio do Planalto, the president's workplace.[4]

With the tension still tangible in the streets of Brasilia outside the presidential palace, one year later, impeachment proceedings against Rousseff were in full swing. Inside the Palácio do Planalto, a handful of Treasury accountants waited in front of the embattled President's office. They were awaiting their Minister of Finance, who had gone inside. While they may not have been in the meeting, they knew exactly what was being said. Rousseff was shouting down the Minister, the words "do you think […] that it's some kind of joke?"[5] sounding through the closed door.

What had enraged Rousseff to the point of shouting at her Minister? The 2015 financial report had just been released and compared to the previous one, it looked much worse. Within the span of a year, the balance sheet had gone from showing net *assets* of $43 million to reporting a whopping $471 million in net *liabilities*. Rather than having a surplus in the bank, the Treasury had just told Rousseff and, importantly, the public, that the government was instead running a massive deficit. On top of already out-of-control expenses, her unpopular austerity measures, and impending impeachment, this was incredibly unwelcome news to the struggling President. On August, 31st 2016, Dilma Rousseff was impeached and removed from office by the Senate.[6]

[1] Paulo Trevisani and Rogerio Jelmayer, "Brazil's Dilma Rousseff Defends Austerity Measures in TV Address," Wall Street Journal, March 8, 2015.
[2] Paulo Trevisani and Paul Kiernan, "Brazil Attorney General Seeks Probes of Politicians in Petrobras Scandal," Wall Street Journal, March 3, 2015.
[3] Luciana Magalhaes and Rogerio Jelmayer, "Mass Protests Across Brazil Reflect Anger at President," Wall Street Journal, accessed October 7, 2022.
[4] Jelmayer.
[5] Interview 32.
[6] "Brazil President Dilma Rousseff Removed from Office by Senate," *BBC News*, September 1, 2016.

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In the same month of the same year, half-way around the world in the German state of Hesse, Finance Minister Thomas Schäfer had just released his annual financial report. With the second highest GDP of all German *Länder*, one of the lowest reported unemployment rates, and steadily decreasing net borrowing, the state was in a solid financial position, nothing like the one Rousseff was facing in Brazil. There was no outcry over fiscal policy and corruption, no protesters, and (probably) no shouting over the financial report. However, there was one surprising thing about the 2015 balance sheet. From one year to the next, Hesse reported an increase in pension provisions of €14.7 billion. This was coupled with the prediction that, for the following year, provisions were facing a further €4.4 billion increase. Given Hessen's tax income in the same year was €21 billion, this was a significant sum to have to set aside.[7]

The reason this increase is significant does not just lie in its size but also the fact that this was not a political decision by prudent policymakers to put money in a rainy-day fund. No one had advocated for this increase. Instead, this determination was made by the Ministry of Finance based solely on financial data. While Hessian bureaucrats were likely spared from becoming witnesses to a shouting match, it is not entirely unreasonable that individual policymakers and politicians may have had their misgivings over having €14.7 billion fewer at their discretion.

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What these two stories have in common, besides occurring in the same year, is that both Rousseff's rage and Hessian mechanistic pensions provision increases were caused by accounting standards. In fact, their trigger was the very same set of accounting standards. The standards responsible, used to compile financial reports in both in Brazil and Hesse for the first time in 2015, are the so-called "International Public Sector Accounting Standards" (IPSASs). However, contrary to what their name might suggest, these standards are not issued by a supranational or international governmental organization (IGO). IPSASs are the product of a private sector organization operating under the auspices of the international accounting profession, the International Public Sector Accounting Standards Board (IPSASB). This begs the question why two governments at different levels, in very different countries and world

[7] Hessisches Ministerium der Finanzen, "Geschäftsbericht 2015," August 23, 2016.

regions are using the same set of accounting standards – and importantly, why these standards for the public sector are being set by a private actor.

Once alerted to the existence of private standards for the public sector, one will realize they are more widespread than just financial reporting. Initiatives by private actors seeking to regulate the public sector have also cropped up in fields like climate and environmental policy and management systems. For around a decade, the World Resources Institute (WRI) has been busy translating its private sector standards such as the Greenhouse Gas (GHG) Protocol to the public sector. Among others, it now maintains a GHG standards for the US public sector, for cities and other subnational entities, as well as for policymaking generally.[8] Similarly, the International Organization for Standardization's (ISO) quality and environmental management standards started diffusing to the public sector already over two decades ago.[9] More recently, ISO has been very active in directly regulating the public sector by setting standards specifically for governments, based on its existing standards.[10]

Yet, one would learn next to nothing about this phenomenon by reading the relevant international relations, regulation, or political science literature. Private rulemaking for the public sector remains unexplored and is rife with puzzling questions. Why do states allow private rules such sway over their balance sheets, internal organization, and environmental policy? As seen in the vignettes above, these rules can have major implications for policymaking. Why would governments accept private rules that may put them at a disadvantage or force their hand? Why are these standards not set by states or IGOs? In general, why would states allow themselves to be regulated by private rules – how come private actors are standardizing the state?

This thesis seeks to answer these questions for the first time by using the case of public sector financial reporting. It will argue that the previously unexplored private regulation of the public sector is an inherently puzzling observation demanding a theoretical response that goes beyond

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[8] Stephen Russell et al., "The Greenhouse Gas Protocol for the U.S. Public Sector: Interpreting the Corporate Standard for U.S. Public Sector Organizations" (World Resources Institute and LMI, October 2010); Fong Wee et al., "Global Protocol for Community-Scale Greenhouse Gas Inventories: An Accounting and Reporting Standard for Cities" (GHG Protocol, June 2021); World Resources Institute, "Policy and Action Standard: An Accounting and Reporting Standard for Estimating the Greenhouse Gas Effects of Policies and Actions," 2014.

[9] International Organization for Standardization, "ISO Survey 2014," 2014, https://www.iso.org/the-iso-survey.html; International Organization for Standardization, "ISO Survey 2021," 2021, https://www.iso.org/the-iso-survey.html.

[10] See International Organization for Standardization, "ISO 18091:2019," 2019, https://www.iso.org/standard/72808.html; International Organization for Standardization, "ISO/TS 54001:2019," 2022, https://www.iso.org/standard/75288.html.

existing approaches. In doing so, this thesis will make three key contributions. First, it identifies private regulation of the public sector as a new mode of regulation that has not yet been examined in the literature. It does so by offering a new typology of regulatory relationships between public and private sectors and addressing a gap largely unaddressed in the literature. It is argued that to more accurately capture public-private regulatory relations, it is necessary to go both beyond focus on rule-making and rule-taking, and beyond treating only those with formal-legal authority as regulators. Greater emphasis on the locus of power and power sources beyond formal-legal ones, paints a fuller picture of regulation and captures missing cases of private regulation of the public sector. The thesis therefore emphasizes private power and agency, and demonstrates that private actors can be *de facto* regulators with states as their regulatory targets and IGOs as orchestrated intermediaries.

Second, it provides for the first time a rich and in-depth empirical exploration of a case of private regulation of the public sector. Tracing the foray of the accounting profession into the public sector from the 1970s to today, the thesis tells the story of the rise of the IPSASB from an obscure committee within the International Federation of Accountants (IFAC) to the globally dominant standard setter for government accounting. In doing so, this thesis is also the first systematic, in-depth study of the IPSASB and its role in government accounting, complementing a rich literature on private sector financial reporting[11] and filling an important empirical gap.

Third, importantly, the study provides an explanation for the successful emergence of private regulation of the public sector – generally and in the case of the IPSASB. Only by amending our current thinking about regulatory relationships between private and public sectors, as well as the role private actors play within them, can the phenomenon of private regulation of the public sector be fully understood. In essence, this thesis argues that private standard setters hold more power in regulatory relationships than often acknowledged. They use sources of power beyond formal-legal authority to enlist other powerful actors in the diffusion its standards. Private rulers will both target IGOs and national and subnational bodies for enlistment. While actively pushing their standards through through domestic and international channels, private rulers will seek to generate demand by depicting their standards as universally applicable and apolitical – even if they have, as already shown above, distributional implications. Understanding why and how private rules standardize the state will also help paint a fuller

[11] See, e.g., Tim Büthe and Walter Mattli, *The New Global Rulers: The Privatization of Regulation in the World Economy* (Princeton: Princeton University Press, 2011).

picture of the much-explored domain of transnational private regulation (TPR). Enhancing our understanding on orchestration and regulatory intermediation, this thesis adds an important piece to the puzzle of TPR, its causes, and its workings.

This chapter will introduce the theoretical and empirical parts of this thesis. To set the scene and root the thesis in the wider TPR literature, part I explores the rise of TPR and the prevalent explanations for that rise. Part II will then present the argument and case in brief. Part III explores the methods used. Part IV offers a summary of thesis structure.

I. Setting the Stage: The Rise of Transnational Private Regulation (TPR)

I.1. Transnationalization and privatization in global regulation

More than two decades ago, Czempiel and Rosenau remarked that transnational issues "are crowding the global agenda".[12] Twenty-five years later, this trend has neither stopped nor slowed down. Increasingly many policy fields become transnationalized, be it through growing economic interconnectedness and ease of long-distance communication, or through transborder problems like pollution, climate change, and international migration. This trend has been accompanied by the transnationalization of regulatory activity and the cropping up of new rules everywhere which seek to re-order our world.[13] In parallel, authority in global governance is shifting. Since transnationality indicates an involvement of international, national, and subnational levels alike, authority is unsurprisingly not only moving up to the global level but is also being relocated to subnational units.[14] In fact, according to the literature the locus of authority and governance seems to be shifting everywhere at the same time: "downward, upward, laterally".[15] The development might therefore be more accurately described as dispersion and fragmentation of authority.[16] So dispersed, multi-layered, and complex has political authority in global governance become that some proclaim a "new medievalism", likening the current global order to the system of jurisdictional competition, unclear boundaries,

[12] James N Rosenau and Ernst Otto Czempiel, *Governance without Government: Order and Change in World Politics*, Cambridge Studies in International Relations ; 20 (Cambridge ; New York: Cambridge University Press, 1992), 3.
[13] Marie-Laure Djelic and Kerstin Sahlin-Andersson, "Introduction: A World of Governance: The Rise of Transnational Regulation," in *Transnational Governance: Institutional Dynamics of Regulation*, ed. Marie-Laure Djelic and Kerstin Sahlin-Andersson (Cambridge: Cambridge University Press, 2006), 1–28.
[14] Rosenau and Czempiel, *Governance without Government*, 3.
[15] Miles Kahler and David A. Lake, "Globalization and Governance," in *Governance in a Global Economy: Political Authority in Transition*, ed. Miles Kahler and David A. Lake (Princeton, NJ: Princeton University Press, 2003), 2.
[16] David Held and Anthony G. McGrew, *Governing Globalization: Power, Authority and Global Governance* (Oxford: Polity, 2002), 9.

and dispersed socio-political networks of medieval Europe.[17] This inevitably poses challenges for nation states and their legal systems as they are faced with a "new reality of extreme legal pluralism".[18]

Especially from the point of view of traditional, state-centrist approaches to International Relations, one of the most fascinating and puzzling features of this emerging system of transnational regulation is that a significant part of it is constituted by private actors. The privatization of regulation and the rise of transnational private regulation (TPR) have not gone unnoticed by the scholarship, which has paid increasing attention in the last two decades.[19] Private regulatory arrangements have been described in areas as diverse as corporate governance,[20] labor standards,[21] global finance,[22] environmental standards – especially forestry[23] – as well as other forms social and corporate social responsibility standards that can broadly be subsumed under the term "civil regulation".[24]

Boli and Thomas observe a significant proliferation of international nongovernmental organizations[25] – which they see as the organizational manifestation of world culture – and speak of the rise of transnational authority.[26] Similarly, Abbott and Snidal show that there has

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[17] Jörg Friedrichs, "The Meaning of New Medievalism," *European Journal of International Relations* 7, no. 4 (December 1, 2001): 475–501. This of course also shows that private power is not new to global governance. Private actors have had significant independent power through the ages, from medieval times to the Medici and merchant banks, to multinational corporations of the twentieth century. However, it is new to our post-1945 order, and arguably unprecedented in scope. It is also relatively new to the academic study of global governance.
[18] Tamar Herzog, *A Short History of European Law: The Last Two and a Half Millennia* (Cambridge, Massachusetts: Harvard University Press, 2018), 243.
[19] A. Claire Cutler, Virginia Haufler, and Tony Porter, eds., *Private Authority and International Affairs*, SUNY Series in Global Politics (Albany: State University of New York Press, 1999); John Braithwaite and Peter Drahos, *Global Business Regulation* (Cambridge: Cambridge University Press, 2000); Rodney Bruce Hall and Thomas J. Biersteker, eds., *The Emergence of Private Authority in Global Governance*, Cambridge Studies in International Relations ; 85 (Cambridge: Cambridge University Press, 2002); Tim Büthe, "Private Regulation in the Global Economy: A (P)Review," *Business and Politics* 12, no. 3 (2010); Büthe and Mattli, *The New Global Rulers: The Privatization of Regulation in the World Economy*.
[20] Henk Overbeek et al., *The Transnational Politics of Corporate Governance Regulation*, Routledge/RIPE Studies in Global Political Economy ; 23 (London: Routledge, 2007).
[21] Dara O'Rourke, "Outsourcing Regulation: Analyzing Nongovernmental Systems of Labor Standards and Monitoring," *Policy Studies Journal* 31, no. 1 (2003): 1–29.
[22] Asma A. Hussain and Marc J. Ventresca, "Formal Organizing and Transnational Communities: Evidence from Global Finance Governance Associations, 1879-2006," in *Transnational Communities: Shaping Global Economic Governance*, ed. Marie-Laure Djelic and Sigrid Quack (Cambridge ; New York: Cambridge University Press, 2010), 153–73.
[23] Tim Bartley, "Institutional Emergence in an Era of Globalization: The Rise of Transnational Private Regulation of Labor and Environmental Conditions," *American Journal of Sociology* 113, no. 2 (September 1, 2007): 297–351.
[24] David Vogel, "The Private Regulation of Global Corporate Conduct," in *The Politics of Global Regulation*, ed. Walter Mattli and Ngaire Woods (Princeton University Press, 2009), 151–88.
[25] Not all have regulatory functions.
[26] John Boli and George M. Thomas, eds., *Constructing World Culture: International Nongovernmental Organizations since 1875* (Stanford: Stanford University Press, 1999).

been an increase in private-led schemes of voluntary standard setting, which make up a large part of the current body of TPR. Mapping schemes of regulatory standard setting onto a "governance triangle" with states, NGOs, and firms at the three corners, the authors observe shifting patterns over the past 30 years: from very few and mainly state-led initiatives pre-1985, through a period of emergence of NGO- and firm-led standardization as well as collaborative schemes in the decade from 1985 to 1994, to an increased proliferation in private schemes after 1994.[27]

There thus seem to be two parallel trends in global governance: a transfer of regulatory power from national to transnational, and from public to private. To capture these trends, different notions and concepts have been introduced. Djelic and Quack speak of the "patchwork character" of governance, with different public and private rule systems competing.[28] Black uses the notion of "decentered regulation"[29] to express that regulation has multiple loci and increasingly does not have the state and command-and-control type mechanisms at its center, but instead many actors on all levels who are making use of more dispersed modes of regulation. Mattli and Seddon find that a "bewildering range of concepts" is being employed in analyzing regulatory linkages and cooperation between institutions from different levels, and between public and private actors.[30] Regardless of which concept is being used and which aspect of current transnational regulatory arrangements is being highlighted, a growing body of literature indicates that TPR is on the rise.

I.2. Explanations for TPR's Rise

The reasons for the recent rise in TPR have been widely discussed in the scholarly community. Most explanations include some variation of the argument that the increasing provision of regulation by private actors is due to a multi-fold capacity issue of the state in the face of globalization and transnationalization. The rise of TPR would thus be largely driven by "the

[27] Kenneth W. Abbott and Duncan Snidal, "The Governance Triangle: Regulatory Standards Institutions and the Shadow of the State," in *The Politics of Global Regulation*, ed. Walter Mattli and Ngaire Woods (Princeton University Press, 2009), 44–88.
[28] Marie-Laure Djelic and Sigrid Quack, "Transnational Communities and Their Impact on the Governance of Business and Economic Activity," in *Transnational Communities: Shaping Global Economic Governance*, ed. Marie-Laure Djelic and Sigrid Quack (Cambridge ; New York: Cambridge University Press, 2010), 396.
[29] Julia Black, "Decentring Regulation: Understanding the Role of Regulation and Self Regulation in a 'Post-Regulatory' World," *Current Legal Problems* 54, no. 1 (2001): 103–46.
[30] Walter Mattli and Jack Seddon, "The Power of the Penholder: The Missing Politics in Global Regulatory Analysis," in *The Law, Economics and Politics of International Standardisation*, ed. Panagiotis Delimatsis, Cambridge International Trade and Economic Law (Cambridge, United Kingdom: Cambridge University Press, 2015), 169.

shortcomings of the regulatory state as a global regulator".[31] The perceived or actual decline of state regulatory capacity due to global transformations and the limited capability and willingness of states to regulate certain markets have been cited as necessary structural conditions for TPR emergence.[32]

It has been argued that the complexity and pace of change and innovation – especially in highly specialized and technical fields like finance – have made it difficult for states and regulators to keep up. This is connected to a lack of expertise on the part of public regulatory agencies: due to their specialized knowledge and closeness to the innovation process, private actors have a competitive advantage.[33] The problem of information asymmetry between regulator and regulated industry is well known from the domestic context.

In general, economic globalization is seen to have increased the need for harmonization.[34] Harmonization brings efficiency gains through reduced transaction costs: standardization of private sector accounting, for example, has to an extent been driven by the ongoing integration of financial markets and the increasingly multinational setup of major corporations which make divergence in national rules more and more costly.[35] Additionally, as economic activity becomes increasingly transnational, it usually also escapes the regulatory reach of any individual nation state. Similarly, domestic monitoring and enforcement are no longer sufficient to ensure rule compliance and effectiveness. Intergovernmental cooperation required to tackle transnational issues is commonly even slower than regulatory action by individual states and therefore oftentimes too slow to be effective.[36] Private standards on the other hand can more easily be adapted to changes than international treaties and especially in coordination game type situations an informal standard can provide an efficient solution by forming a focal point.[37] TPR

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[31] Fabrizio Cafaggi, "New Foundations of Transnational Private Regulation," *Journal of Law and Society* 38, no. 1 (March 1, 2011): 23.
[32] Philipp Pattberg, "The Institutionalization of Private Governance: How Business and Nonprofit Organizations Agree on Transnational Rules," *Governance* 18, no. 4 (Oktober 2005): 589–610; Andreas Nölke and Jean-Christophe Graz, "Conclusion: The Limits of Transnational Private Governance," in *Transnational Private Governance and Its Limits*, ed. Jean-Christophe Graz and Andreas Nölke, Routledge/ECPR Studies in European Political Science ; 51 (London ; New York: Routledge, 2008), 225–42.
[33] Cutler, Haufler, and Porter, *Private Authority and International Affairs*, 1999.
[34] Walter Mattli, "Beyond the State?: Are Transnational Regulatory Institutions Replacing the State?," in *The Oxford Handbook of Transformations of the State*, ed. Stephan Leibfried et al., First edition., Oxford Handbooks (Oxford: Oxford University Press, 2015), 286–302.
[35] Büthe and Mattli, *The New Global Rulers: The Privatization of Regulation in the World Economy*.
[36] Büthe, "Private Regulation in the Global Economy"; Cafaggi, "New Foundations of Transnational Private Regulation"; Mattli, "Beyond the State?: Are Transnational Regulatory Institutions Replacing the State?"
[37] Nico Krisch, "Capacity and Constraint: Governance through International and Transnational Law," in *The Problem-Solving Capacity of the Modern State: Governance Challenges and Administrative Capacities*, ed. Martin Lodge and Kai Wegrich (Oxford: Oxford University Press, 2014), 198–217.

can therefore remedy some of the shortcomings of international law.[38] In this context it is usually also noted that states have left regulatory voids which generate demand for TPR to fill in the gaps.[39]

Many explanations are of a functionalist flavor, implying that the need for an institution or for more efficient solutions is the explanation for their existence.[40] Few authors have in their models paid attention to distributional conflicts and the politics of TPR. Bartley provides one example as he identifies two alternative explanations: a market-based approach which argues that firms use TPR to preserve reputation and market position, and a political view where the transformation in regulation is the result of distributional conflicts.[41] Analyzing the emergence of forest and apparel certification in the 1990s, Bartley finds that certification schemes are ultimately the result of power battles between environmentalists and corporations in the absence of states' willingness or ability to agree on binding standards. These regulatory schemes are then settlements of conflict among the actors in what the author calls "political construction of market institutions".[42] This leads him to conclude in favor of the political explanation.

Somewhat in line with the market approach is the observation that especially certification and corporate social responsibility schemes have been driven by increased global trade and demands for products manufactured and traded under fair conditions. Many retailers impose respective standards on their suppliers.[43] Further highlighting the strategic side to private regulation, it has been argued that motives on the supply side of standardization are often down to potential distributional gains: establishing entry barriers to markets or lowering one's own compliance cost by being an early mover on a dominant standard can bring competitive advantages.[44]

In addition to market-based and political explanations, and in line with what some call the practice turn in IR, other authors have argued that communities of practice – especially professions – are an important driver of the rise of TPR.[45] In sociology, professions have long been studied as an important part of economic life. For example, DiMaggio and Powell

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[38] Cafaggi, "New Foundations of Transnational Private Regulation."
[39] Jennifer Clapp, "The Privatization of Global Environmental Governance: ISO 14000 and the Developing World," *Global Governance* 4, no. 3 (1998): 295–316; Cutler, Haufler, and Porter, *Private Authority and International Affairs*, 1999; Peter Grabosky, "Beyond Responsive Regulation: The Expanding Role of Non-State Actors in the Regulatory Process," *Regulation & Governance* 7, no. 1 (März 2013): 114–23.
[40] Bartley, "Institutional Emergence in an Era of Globalization," 306.
[41] Bartley, "Institutional Emergence in an Era of Globalization."
[42] Bartley, 309.
[43] Grabosky, "Beyond Responsive Regulation."
[44] Büthe, "Private Regulation in the Global Economy."
[45] Marie-Laure Djelic and Sigrid Quack, *Transnational Communities: Shaping Global Economic Governance* (Cambridge ; New York: Cambridge University Press, 2010).

identified them as the primary source of normative pressures in their seminal work on isomorphic organizational change: Because at their core professions rest on socialization through education, their members share organizational norms and cognitive patterns, constituting "a pool of almost interchangeable individuals who occupy similar positions across a range of organizations".[46] The resulting professional networks are very suitable means for the speedy diffusion of new models and practices. International accounting standardization is likely to be a good example of this: here, globalization and diffusion of standards are greatly facilitated by the work of the global accounting profession. The professional organization for accountants at the international stage, the International Federation of Accountants (IFAC), is the focal point of international accounting standardization. Within this wider community of accountants, big accounting firms constitute a particularly international community.[47]

Others describe larger historical trends[48] and institutional forces[49] as contributing factors to the rise of TPR. Scientization, including the drive towards measurability and quantifiability, marketization, the spread especially of forms of meta-organizations, and ongoing rationalization might all have a role to play in driving transnational regulation. Büthe has argued that there has been a "broader shift toward a neoliberal ideology that delegitimized many forms of government intervention in the economy"[50], thereby driving the privatization of regulation.

Further factors conducive to the emergence of TPR – beside the lack of state capacity – have been identified on the macro or structural level: increasing importance of corporations as well as increasing legitimacy and credibility of civil society actors setting standards, support by international organizations, and an oligopolistic market structure where a few big players can more easily cooperate. For the micro level it has been argued that the structure of the problem and the organizational resources of the players involved will be decisive in whether a field is fertile for private regulation or not.[51] In general, private actors are said to be more suited to solve problems that are structured as coordination games, while state action is still required for

[46] Paul J. DiMaggio and Walter W. Powell, "The Iron Cage Revisited: Institutional Isomorphism and Collective Rationality in Organizational Fields," *American Sociological Review* 48, no. 2 (1983): 147–60.
[47] Carlos Ramirez, "Formal Organizing and Transnational Communities: Evidence from Global Finance Governance Associations, 1879-2006," in *Transnational Communities: Shaping Global Economic Governance*, ed. Marie-Laure Djelic and Sigrid Quack (Cambridge ; New York: Cambridge University Press, 2010), 174–95.
[48] Cutler, Haufler, and Porter, *Private Authority and International Affairs*, 1999.
[49] Marie-Laure Djelic and Kerstin Sahlin-Andersson, "Institutional Dynamics in a Re-Ordering World," in *Transnational Governance: Institutional Dynamics of Regulation*, ed. Marie-Laure Djelic and Kerstin Sahlin-Andersson (Cambridge: Cambridge University Press, 2006), 375–97.
[50] Büthe, "Private Regulation in the Global Economy."
[51] Pattberg, "The Institutionalization of Private Governance"; Nölke and Graz, "Conclusion: The Limits of Transnational Private Governance."

problems that can be modelled as prisoner's dilemmas[52] – looking at burgeoning 'civil regulation', however, even the latter attracts many private regulatory schemes.[53]

The literature has identified a plethora of factors contributing to the dual trends of privatization and transnationalization that enable the rise of TPR. However, it is clear from the above that not all approaches are sensitive enough to power and politics in TPR. While some authors go beyond purely functionalist or efficiency-based arguments and take into account market forces, much work still remains vaguely on the level of structural factors. Few delve into the politics and distributional issues – and even fewer explicitly explore the independent regulatory power of private actors. My thesis expands the literature in this much needed direction by following private power and uncovering the unexplored private regulation of the public sector.

I.3. The neglected private regulation of the state

As seen above, the transnationalization and privatization of regulation is an emerging theme in the literature. With the rise in TPR also come discussions around the role of the state and whether its power is being diminished.[54] Susan Strange famously spoke of the "retreat of the state"[55], arguing that in a globalizing world, authority has shifted towards those states with global reach, and sideways towards markets and the private actors dominating them. With the arrival of the "regulatory state"[56] and the New Public Management (NPM), others have advocated the state shift its role from rowing to steering.[57] If one seeks to identify the actors in global governance, it becomes clear that the state is clearly not the only player,[58] and in some areas it may even "no longer be the most important game in town".[59] As will be shown, however, this rich and expanding literature has left an important gap. While much of the literature points out how rule-makers have shifted from public to private, there is an almost

[52] Kenneth W. Abbott and Duncan Snidal, "International 'standards' and International Governance," *Journal of European Public Policy* 8, no. 3 (January 1, 2001): 345–70.
[53] Vogel, "The Private Regulation of Global Corporate Conduct."
[54] Martha Finnemore and Judith Goldstein, *Back to Basics: State Power in a Contemporary World* (Oxford: Oxford University Press, 2013).
[55] Susan Strange, *The Retreat of the State: The Diffusion of Power in the World Economy*, Cambridge Studies in International Relations ; 49 (Cambridge: Cambridge University Press, 1996).
[56] Giandomenico Majone, "The Rise of the Regulatory State in Europe," *West European Politics* 17, no. 3 (July 1994): 77–101.
[57] David Osborne and Ted Gaebler, *Reinventing Government: How the Entrepreneurial Spirit Is Transforming the Public Sector* (New York: Plume, 1992).
[58] Deborah D Avant, Martha Finnemore, and Susan K. Sell, eds., *Who Governs the Globe?*, Cambridge Studies in International Relations ; 114 (Cambridge: Cambridge University Press, 2010).
[59] Abbott and Snidal, "The Governance Triangle: Regulatory Standards Institutions and the Shadow of the State," 87.

exclusive focus on the regulation of private conduct: the rulers may change, but the ruled remain the same.

Thinking about the possible regulatory relationships between public and private, there is almost complete neglect of the state as the potential subject of regulation. This neglect is unsurprising, as legal authority rests with the state and most political science, international relations, and regulation literature is naturally somewhat state-centric. Yet, over the past three decades, new private regulatory arrangements have emerged that have as their ultimate target the state itself, not private actors.

Even in the face of ever rising TPR, the state naturally remains a primary actor in global governance, and its power-loss is only relative. The assumption of the literature this thesis expands on is not that we have new global rulers altogether. Instead, it points out the need to open our eyes to the independent effects and agency of co-rulers besides the state. An increased number of actors is providing regulatory solutions to transboundary problems. Non-state actors are rushing to fill regulatory voids left by states,[60] but they are not overshadowing the state or making it obsolete: In transnational governance, the state does not disappear but it becomes one of many actors.[61] When Strange spoke of the retreat of the state, the point was not that states were going away, but that there is a trend towards multiplicity and diffusion of – in many cases conflicting – authority at the global level. There is a general increase in transnational rule-making activity, involving all kinds of actors, including the state which is itself going through a transformation.[62] In this haze of regulation, the state and state-run organizations remain among the most important institutions. While trends towards transnationalization and privatization take power away mainly form smaller and weaker states, powerful states with large internal markets and global reach may *gain* influence.[63] Taking an extreme view, Drezner argues that those powerful states "remain the primary actors writing the rules that regulate the global economy" [64] and goes so far as to say that private actors such as multinational corporations and smaller states enter as intervening variables at best: in the end, they do not matter for regulatory outcomes. Such an extreme position, however, is not analytically helpful as it blocks out many of the complexities and interdependencies of global governance. Instead,

[60] Grabosky, "Beyond Responsive Regulation."
[61] Djelic and Sahlin-Andersson, "Introduction: A World of Governance: The Rise of Transnational Regulation."
[62] Djelic and Sahlin-Andersson, "Institutional Dynamics in a Re-Ordering World."
[63] Strange, *The Retreat of the State*; Ngaire Woods, "The Political Economy of Globalization," in *The Political Economy of Globalization*, ed. Ngaire Woods (New York: StMartin's Press, 2000), 1–19; Djelic and Sahlin-Andersson, "Institutional Dynamics in a Re-Ordering World."
[64] Daniel W. Drezner, *All Politics Is Global: Explaining International Regulatory Regimes* (Princeton, N.J.: Princeton University Press, 2007), 5.

we can acknowledge the power of states while at the same time recognizing the rising independent power of non-state actors.

As others have pointed out, the state taking its place among a variety of private regulators is not an entirely new phenomenon in international (business) relations. Some make reference to the medieval *lex mercatoria* that essentially governed long-distance trade and capital flows in the Europe of the middle ages.[65] It was deterritorialized, and constituted an essentially self-regulatory system for rule-setting and dispute resolution run by the merchant community independent of local sovereigns, thereby "devising and enforcing commercial transactions that avoided feudal restrictions on the mobility of capital and the transmissibility of property".[66] Cutler argues that we see the rise of a new, transnational merchant law. At its heart, she argues, is "an elite of private organizations", the "mercatocracy". [67] This might ultimately imply more cohesion and agency on the part of private actors than there actually is, and erroneously assume that globalization and transnationalization are conscious and coordinated processes. However, it suggests TPR is not an entirely new phenomenon.

Historically, the state has rarely ever been the only relevant actor. Networks of public and private regulation have existed even before medieval times. However, at least three things about the current rise of TPR are certainly new: First, there is a difference in geographic scope. While in medieval or ancient times private actors played an important role in the regulation of transborder interactions there was still a very clear regional restriction to their regulatory reach. Today's TPR is global. Regulatory schemes of private and public actors alike can travel effortlessly and become truly global. Second, its regulatory scope is not only extended spatially but also in terms of the areas of life affected. While in the Middle Ages, merchants might have been (to a small degree) regulated transnationally, almost every facet of modern (economic) life is regulated by some – usually voluntary private – standard. Third, current private actors contend with the nation state as it solidified in the 20th century rather than the much weaker and patchier constructs and sovereigns of former – especially pre-modern – times.

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[65] Friedrichs, "The Meaning of New Medievalism."
[66] A. Claire Cutler, *Private Power and Global Authority: Transnational Merchant Law in the Global Political Economy*, Cambridge Studies in International Relations ; 90 (Cambridge: Cambridge University Press, 2003), 109.
[67] Cutler, *Private Power and Global Authority*.

II. Introducing Private Regulation of the Public Sector: Outline of Theory and Case

It is well established that technical standards are rarely as neutral and apolitical as they may seem. As others have shown, this is true for standards across domains such as in corporate financial reporting, labor standards, and environmental certification. [68] Turning to standards in the public sector, it is not surprising that here too what seems technical-neutral often has consequences for the distribution of power or funds and is hence fiercely political.

It will be surprising to many, however, that there are private organizations acting at international and domestic levels to set rules for public sectors world-wide. This will be surprising, because only few ever encounter the obscure and technical parts of government many of these organizations target. Given the potential for technical rules to have distributional consequence outlined below, why states would allow this to happen should be even more surprising.

As said above, private organizations are involved in regulating the public sector in a variety of domains. For example, ISO management standards usage as measured by certifications in the public sector has increased about ten-fold since the late 1990s. Today, there are thousands of public sector organizations worldwide that are officially certified as compliant with one of ISO's standards.[69] Most of these standards pertain to process management, that is, they describe how an organization has to design its processes in order to achieve good outcomes in areas like customer satisfaction or environmental impact. Therefore, these standards may have a direct impact on how governments at all levels provide services and how they interact with their customers, that is, citizens.

Most ISO certifications issued in the public sector are for ISO 9001 and ISO 14001. The former is a quality management standard that provides guidance for how to meet customer needs within a framework of regulatory requirements relating to the product (4732 certificates issued

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[68] See, e.g., Sebastian Botzem, *The Politics of Accounting Regulation ; Organizing Transnational Standard Setting in Financial Reporting* (Cheltenham: Edward Elgar, 2014); Tim Büthe and Walter Mattli, *The New Global Rulers: The Privatization of Regulation in the World Economy* (Princeton: Princeton University Press, 2011),; Leonardo Martinez-Diaz, "Strategic Experts and Improvising Regulators: Explaining the IASC's Rise to Global Influence, 1973-2001," *Business & Politics* 7, no. 3 (December 2005): 1–26; Tim Bartley, *Rules Without Rights* (Oxford: Oxford University Press, 2018).

[69] As measured by certifications reported in ISO survey. The survey captures only those organizations that are officially certified and for which certification was reported during the annual survey. Additionally, these numbers only include certificates where the sector of the respective organization is listed as "public administration". However, there are likely to be public sector organizations in other sectors too, for example in "education", "health and social work", or "other social services". Taken together this means there is likely significant under-reporting. See: International Organization for Standardization, "ISO Survey 2014," 2014, https://www.iso.org/the-iso-survey.html; International Organization for Standardization, "ISO Survey 2021," 2021, https://www.iso.org/the-iso-survey.html.

according to the most recent ISO survey). The latter is an environmental management standard that describes how an organization needs to be managed in order to minimize its environmental impact (954 certificates issued according to the most recent ISO survey). Other ISO standards that find use in the public sector include standards for IT and information security (e.g., ISO/IEC 27001) as well as "anti-bribery management systems" (ISO37001). Beyond these standards, there are also those that specifically and solely target the public sector. Two pertinent examples are ISO 18091 which translates quality management to government organizations specifically and ISO/TS 54001, currently under development, which does the same for electoral organizations. ISO/TS 54001 is designed to help any organization that "needs to demonstrate its ability to manage elections by secret ballot, to provide reliable, transparent, free and fair results that comply with electoral requirements" and that "aims to enhance the trust and confidence of citizens, candidates, political organizations and other electoral interested parties through the effective implementation of the electoral quality management system".[70] This shows that these standards are an example of private rule-makers attempting to extend their reach to the very core functions of the state. Unlike some of the earlier developments in ISO 9001 diffusion, this is not simply a byproduct of a sector neutral approach but a deliberate undertaking to standardize the state. Clearly, the intention is benign. However, standards matter and when a private organization aims to regulate electoral processes, scholars have reason to pay attention.

Similarly, the World Resources Institute attempts to standardize how governments measure and mitigate the carbon impact of their operations and policies. Known for maintaining the influential GHG Protocol corporate standard first released in 2001, the WRI has since translated this standard to apply directly to the government sector. One early such standard is the GHG Protocol for the U.S. Public Sector released in 2010. Essentially a translation of the private sector standard, the public sector protocol offers a reporting framework for GHG emissions designed to enable management and reduction of emissions within public sector organizations.[71] A similar standard exists for subnational jurisdictions including city governments,[72] as well as for setting national and subnational GHG reduction goals.[73] Just like

[70] International Organization for Standardization, "ISO/TS 54001:2019," 2022, https://www.iso.org/standard/75288.html.
[71] Stephen Russell et al., "The Greenhouse Gas Protocol for the U.S. Public Sector: Interpreting the Corporate Standard for U.S. Public Sector Organizations" (World Resources Institute and LMI, October 2010).
[72] Fong Wee et al., "Global Protocol for Community-Scale Greenhouse Gas Inventories: An Accounting and Reporting Standard for Cities" (GHG Protocol, June 2021).
[73] World Resources Institute, "Mitigation Goal Standard: An Accounting and Reporting Standard for National and Subnational Greenhouse Gas Reduction Goals," 2014.

the earlier corporate standard, these standards have at their core an accounting and reporting system for making visible the emissions of an organization. This includes setting organizational boundaries and deciding which emissions to count. For example, aside from direct emissions produced by an entity, GHG Protocol standards also factor in the energy purchased by the organization ("Scope 2 emissions") and emissions resulting from upstream and downstream activities such as supply chains and value chains ("Scope 3" emissions). The result from this accounting is a so-called GHG inventory which can be used to set reduction targets and design mitigation strategies.

As in the ISO example, setting standards for GHG accounting is not a sinister conspiracy by private organizations against the public sector but done with benign and transparent objectives. However, just like ISO standards codify a certain approach to process management, the WRI's GHG standards codify myriad decisions about which emissions to count and how to set emission targets. The resulting numbers are intended to have a direct impact on organizational decision making and policy. This has immediate distributional consequences. For example, the city of Los Angeles used WRI's subnational standard to estimate its emissions and set policy targets in its 2019 Green New Deal. The Green New Deal's targets have implications for policy in almost all policy areas from mobility and public transit to housing and development.[74] Los Angeles' Mayor Eric Garcetti, who introduced the Green New Deal, is quoted in the executive summary of the standard as saying the standard "will help cities […] take meaningful mitigation actions to curb the climate crisis".[75] Similar impacts on policy can be expected from the WRI's Policy and Action standard targeted at all levels of government to "inform decision making, monitor progress of implemented policies [and] evaluate GHG effects to learn from experience".[76] It is applicable to all "policies and actions"[77] taken by governments, including regulations, taxes, subsidies, and incentives, as well as to all stages of the policy cycle.[78] If such a standard is used as a general guide for policymaking, implementation, and evaluation, the impacts on policy will be direct and immediate.

[74] Eric Garcetti, "L.A.'s Green New Deal: Sustainable City PLAn 2019," 2019.
[75] Fong Wee et al., "Global Protocol for Community-Scale Greenhouse Gas Inventories: An Accounting and Reporting Standard for Cities" (GHG Protocol, June 2021), 16.
[76] World Resources Institute, "Policy and Action Standard: An Accounting and Reporting Standard for Estimating the Greenhouse Gas Effects of Policies and Actions," 2014, 6.
[77] World Resources Institute, "Policy and Action Standard: An Accounting and Reporting Standard for Estimating the Greenhouse Gas Effects of Policies and Actions," 2014, 6.
[78] World Resources Institute, "Policy and Action Standard: An Accounting and Reporting Standard for Estimating the Greenhouse Gas Effects of Policies and Actions," 2014, 7.

One could argue that the only actors that stand to lose from private standards in process management, GHG reporting, or financial reporting are those who are against functioning elections, climate protection, or transparency. But however normatively desirable one may find the stated objectives of such standards, they all codify certain approaches to measuring the status quo and to improvement. As will be shown below using the example of financial reporting, they therefore imply certain distributional consequences whose desirability greatly depends on one's values, goals, and perspective. And this is even assuming the stated goals of these standards are objectively normatively desirable, which is something not everyone will agree with regarding all domains. For all these reasons, private organizations make such rules for the public sector deserve scholarly attention.

This study will tell the story of one such private organization seeking to standardize the state. The International Public Sector Accounting Standards Board (IPSASB), operating under the auspices of the global accounting profession, has quietly attained absolute dominance in the field of public sector financial reporting. Being regarded as the obvious international forum for technical debate and standard setting in its domain, it has reached what Büthe and Mattli call "focality".[79] In the beginning of this chapter it has already been stated why this case is theoretically interesting and how explaining it will help further the understanding of the unexplored phenomenon of private regulation of the public sector, as well as TPR more widely. Before turning to the case, however, Section II.1 will briefly outline the theoretical approach taken to explain private regulation of the public sector more generally, as well as the rise of IPSASs as one instance of this. Section II.2. will then explain why we should care about this particular case by outlining the distributional consequences of IPSASs.[80]

II.1. The theory in brief

The argument presented herein consists of two steps: First, it posits that through a new typology of private-public interactions, we can identify a regulatory phenomenon previously unexplored in the TPR literature. Modifying how we view regulatory relations between private and public sectors can also be the first step in remedying this neglect. In brief, private regulation of the public sector requires one to treat actors as rulers and ruled not because they have the formal-legal authority to require rule-following by others but because they hold power in a regulatory

[79] Büthe and Mattli, *The New Global Rulers: The Privatization of Regulation in the World Economy*.
[80] To be expanded on in Chapter 4.

relationship.[81] Viewed this way, private actors may appear as de facto regulators (or "rulers") and governmental ones as de facto regulatees (or "ruled"). Each type of actor, public and private, may also assume the role of intermediary in regulatory relationships and orchestration. Intermediation of regulation and orchestration are not solely roles for private actors: states may be regulatory intermediaries, as well as targets, too – and private actors may be regulators and orchestrators.[82] Viewing regulatory relations in such a way opens one's eyes to a wider range of cases and helps explain the workings and emergence of the neglected private regulation of the public sector.[83]

The second step of the argument is to explain the "why" and "how" of private regulation of the public sector. Why do private actors become rulers, how and why do they gain power vis-à-vis states? Starting from very suitable existing theories about regulatory relations, including orchestration theory, this thesis develops a general theoretical understanding of private regulation of the public sector. There are three main components to this framework. All three are, in essence, strategies pursued by would-be private rulers that make their success more likely.

First, private rulers induce demand for their rules. Viewing TPR through a demand-and-supply lens is a popular and helpful metaphor.[84]This thesis argues that too often TPR is told as a story of states deliberately outsourcing rule-making according to their own demand, willingly and consciously delegating authority to private actors in domains they choose, and freely picking and choosing the most adequate private forum for the job. In reality, TPR is neither simply a buffet, nor a commissioning platform for states. Instead, private rule-makers tirelessly lobby governmental actors to have their rules drawn on.[85] One way to make this more likely is to

[81] Involving regulators, targets, and in many cases intermediaries. Kenneth W. Abbott, David Levi-Faur, and Duncan Snidal, "Theorizing Regulatory Intermediaries: The RIT Model," *The ANNALS of the American Academy of Political and Social Science* 670, no. 1 (March 1, 2017): 14–35.
[82] Following the language of RIT and orchestration theory. See: Kenneth W. Abbott et al., "Orchestration: Global Governance through Intermediaries," in *International Organizations as Orchestrators*, ed. Kenneth W. Abbott et al. (Cambridge: Cambridge University Press, 2015), 3–36; Abbott, Levi-Faur, and Snidal, "Theorizing Regulatory Intermediaries."
[83] Theories such as RIT and orchestration theory allow for states to be regulatees or intermediaries and private actors to be regulators. However, they do not explicitly theorize these relationships and no work building on them has as yet explored them. This thesis therefore expands them by applying them to a new type of regulatory relationship.
[84] See, e.g., Jessica F. Green, *Rethinking Private Authority: Agents and Entrepreneurs in Global Environmental Governance* (Princeton: University Press, 2013).
[85] See, e.g., Manfred Elsig, "Orchestration on a Tight Leash: State Oversight of the WTO," in *International Organizations as Orchestrators*, ed. Kenneth W. Abbott et al., 1st ed. (Cambridge University Press, 2015), 65–87; Kenneth W. Abbott et al., "Orchestrating Global Governance: From Empirical Findings to Theoretical Implications," in *International Organizations as Orchestrators*, ed. Kenneth W. Abbott et al., 1st ed. (Cambridge University Press, 2015), 349–79.

demonstrate how their rules can be beneficial to those actors. It would be wrong to reduce TPR to a simply functionalist alignment of interests. Instead, private rulers employ sophisticated sales pitches to convince supporters, intermediaries, and potential targets of its work product's benefits – just like a company selling goods and services to consumers would. In order to generate demand, they pursue two strategies. The first strategy is that rules are presented as portable in terms of geography and problem context. Private rulers will argue their rules can solve a range of problems across issue areas and country borders. Rulers who cannot claim this universal portability will not be able to respond to demand for harmonization as well as limit its userbase. The IPSASB, for example, claims that its standards will improve financial decision-making and thus be able to solve problems in diverse domains such as climate change, health care, and public management.[86] The second strategy is that rulers argue their rules are superior to alternatives. To aid this narrative, and induce demand for reforms, private rulers will attempt to discredit and problematize existing rules in the same domain.

Second, private rulers operate under the mask and shield[87] of technical neutrality. Because private rulers cannot rely on formal-legal authority to disseminate their rules, they commonly rely on expertise.[88] For private expertise to be acceptable to state actors in particular, it is important that it comes across as credible, and apolitical. Private actors will work hard to stay clear of any political language, framing their arguments in solely technical terms. They will also work to gain endorsements by actors that possess legitimacy such as IGOs and attempt to obscure the fact of their privateness. This thesis argues that a minimum level of credibility and legitimacy are important even for focal rule-makers who are, as explained below, at an advantage. Beyond this minimum level, credibility and legitimacy can facilitate the spread of their standards.

Third, and crucially, private actors build their own diffusion mechanism, or "supply chains" to stay in the metaphor. To do so, would-be private rulers network to enlist gatekeeping actors at the international and at national levels.[89] This thesis argues that private rulers approach and orchestrate IGOs and other actors to do their bidding. To do so, they need to be able to convince

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[86] Alex Metcalfe and Karen Sanderson, "Is Cash Still King? Maximising the Benefits of Accrual Information in the Public Sector" (London: ACCA, February 2020).
[87] See, Anne-Marie Burley and Walter Mattli, "Europe Before the Court: A Political Theory of Legal Integration," *International Organization* 47, no. 1 (ed 1993): 41–76.
[88] Avant, Finnemore, and Sell, *Who Governs the Globe?*
[89] Especially if their targets, e.g. public sectors, ultimately sit at the national level.

those actors that they can offer rules that benefit them and align with their interest.[90] Despite this, however, it turns out that successful private rulers have surprisingly significant power even vis-à-vis IGOs. If they are focal or singular – meaning the only accepted or the only existing rule-setter in their domain – they will essentially become a monopoly provider of expertise its partners do not possess and cannot replace easily, due to the lack of other fora. The IPSASB story will demonstrate how this configuration leads to them successfully enlisting IGOs and actors at domestic levels such as professional accounting organizations. The Board leverages these relationships to diffuse its standards. Next to these strategies, it also attempts to spread its standards more directly through convincing and targeting public actors directly rather than through intermediaries.

II.2. International Public Sector Accounting Standards Board (IPSASB): private regulation with distributional consequences

There are several factors that make the IPSASB's story less straightforward than states outsourcing standard setting or the teleological diffusion of a standard universally accepted as technically superior. In fact, some in the public sector dispute the appropriateness of business-inspired standards to the public sector. For some, the distaste might be rooted in ideological reasons. Others dispute the utility of these standards or attack them on cost-benefit grounds. There are at least five reasons for why IPSASs diffusion has distributional consequences and is thus not expected to be an apolitical and smooth mechanistic process.

First, switching financial reporting standards including updating IT systems and retraining staff is very costly especially for larger states. At the same time, implementation of these standards does not have an easily measurable and immediately visible impact. Even staunch proponents agree that it could be decades before impacts become evident. Implementation can thus be seen as a reallocation of resources towards the accounting profession without clear payoff. This is because, besides setting the standard, the profession (usually Big Four firms) will be contracted to provide implementation assistance, training of staff, and rollout of IT systems. However, even if one believes in the long-term benefits of these standards, vast costs of up to €3.1bn for a country like Germany[91] might be tough for politicians to justify without hard evidence of

[90] As Abbott and others explain, "correlated goals" are what enables and holds orchestration relationships together. Regulatory intermediaries' "basic goals are aligned, or at least compatible, with those of the orchestrator". Abbott et al., "Orchestration: Global Governance through Intermediaries," 18.
[91] Bundesrechnungshof, "Special Report Pursuant to Article 99 Federal Budget Code on the Intended Implementation of Harmonised European Public Sector Accounting Standards (EPSAS) in the Member States of the European Union," November 15, 2017.

payoffs. This is particularly so because switching costs will be borne in the short run and politicians are focused on short time-horizons. Benefits, if they materialize, can take decades and be very hard to measure.

Second, many who think the Board's standards will have a noticeable impact believe it will be an adverse one. One fear is that because these standards require reporting of pension and social benefits liabilities, they will force increasing financialization, for example of pension systems, further shifting risk onto labor. Some governments fear that their hand will be forced in making changes to their pension systems as existing systems might look unsustainable under the new reporting rules.

Third, even proponents would agree that standards lay the groundwork for more financially driven decision making. In fact, many proponents argue that the real value of these financial reporting standards can only be realized once they are tied in with budgeting systems. Feeding financial performance information back into budgeting systems is bound to take decision-making power away from elected politicians and the discretion of bureaucrats, putting it into the hands of the accounting system – and those who maintain it. From the viewpoint of many advocates, this is a desirable state leading to better public financial management and less mismanagement. However, it is clear that these distributional consequences will not resonate well with all politicians or bureaucrats.

Fourth further resistance could come from non-accountants within the bureaucracy. Especially in non-Anglo-Saxon countries, financial reporting is less prominent, and accounting mainly tied to budgetary policy. In continental European countries, for example, this tends to be the domain of lawyers and economists. Changing to accounting standards firmly rooted in the accounting profession might not only cause resistance because those in office are less familiar with the concepts but also because, if implemented, money and power are distributed towards accountants and away from the lawyers and economists currently in charge. Inertia and resistance should favor the *status quo*.

Finally, while proponents often mobilize the argument that standards will bring much-needed transparency into government financial reporting, it is far from clear that governments would want this kind of transparency. Revealing more accurately assets and liabilities might matter more for those governments seeking access to capital markets, better ratings, and more investment – even though there is limited evidence (and some to the contrary) that Credit Rating Agencies even care about more accurate financial reporting. However, for established industrial nations this matters much less. On the contrary, they might be more interested in the flexibility that certain financial murkiness provides them. For example, as mentioned above, certain pension systems (pay-as-you-go systems to be precise) seem more sustainable when future liabilities are not accounted for on an accrual basis.

This section has outlined that IPSAS adoption can entail significant distributional consequences creating winners and losers among parliaments, politicians, as well as within the bureaucracy. They also have the potential to mechanistically drive financial policymaking, favoring financialization and benefiting accountants and big accounting firms while potentially disadvantaging labor and taking discretion away from elected representatives. These distributional consequences of IPSASs will be further explored in Chapter 4, which contrasts them with the claims by the IPSASB that its standards are neutral, universally applicable tools far superior to *status quo* systems. Given what was discussed in this section, it is far from intuitively obvious why the IPSASB should be successful in spreading its standards and regulating public sectors world-wide. However, as said above, and as Chapter 4 will also show, IPSASs are now adopted or drawn on by almost half the world's states as well as most of the biggest IGOs and supranational organizations including the World Bank, the International Monetary Fund, the United Nations, and the European Commission. To explain this phenomenon, and the IPSASB's success against the odds, this thesis develops a novel theoretical understanding by drawing on existing theories. The following section will sketch the argument.

In light of all this, it is far from obvious why the standards set by the IPSASB should spread at all and why this organization should look back on an almost 40-year success story.[92] Why was a private standard setter, the IPSASB, successful against the odds in standardizing states? Identifying the IPSASB as a case of private regulation of the public sector, and applying the theoretical approach outlined above and presented in Chapter 2, this thesis will thus explore the mechanisms through which the IPSASB was able to gain and expand its influence and diffuse its standards globally. Exploring the IPSASB's strategic networking at the international and domestic level, this thesis sheds light on how a private actor can be successful in "standardizing" states.

[92] Counting the time when it was still IFAC's Public Sector Committee (PSC), founded in 1986.

III. Methods

Having established the general theoretical framework outlined above and developed in Chapter 2, the thesis puts the theoretical approach to the test using the case of the IPSASB to explain why this private standard setter succeeded in standardizing states against the odds. Given the conceptual novelty and empirical neglect of private regulation of the public sector, this thesis uses a qualitative single case-study approach to test and refine the nuanced theory it develops. This was deemed the most appropriate angle of attack to establish and theorize this new facet of TPR. This section briefly outlines the methodological approach taken.

Data used comprises a variety of mostly qualitative sources, with elite interviews and archival documents representing the biggest share. Thousands of pages of documents – public and internal – were collected and analyzed. Among them, a total of 3461 pages of meeting minutes had to be sifted through, more than half of which were previously unavailable to the public and were digitized from the International Federation of Accountants' (IFAC) archive in New York. Further to qualitative document analysis, interviews were conducted with IPSASB members, staff, and current as well as former Chairmen, officials of international and supranational organizations, subnational bodies, private firms such as Big Four accounting firms and credit ratings agencies, as well as academics. A total of 37 interviews were conducted with 35 subjects, all but seven of which were conducted in person rather than on the phone. Most interviews ranged in time from between 30 minutes and one hour. In total, nearly 30 hours of interviews were conducted. About half of the interviews were recorded and, in some cases, later transcribed.[93] Recording interviews, however, proved to be relatively cumbersome and off-putting for some high-level officials even though all interviews were conducted on the basis of anonymity.[94] As the process was gradually adjusted to taking handwritten notes and expanding on them immediately after the interview, it became clear that this approach did not incur significant data losses and, indeed, led to more natural and insightful conversations. Interview notes range in level of detail but included direct quotes wherever one stood out.

[93] Transcription proved to not be necessary particularly for parts of interviews that provided background information. Recordings were listened to and time-stamped notes were taken for future reference. In case a direct quote needed to be obtained when writing the analysis, it was possible to refer back to the relevant part recording based on the notes taken.

[94] Interviews were all on the condition of anonymity to allow subjects to speak freely. They will be cited in this thesis with only minimal identifiers. Footnotes will cite interviews in the format "interview <number>". For reference, a complete interview list is provided at the end of this thesis.

Interviews were semi-structured. Semi-structured interviews, like structured interviews, are based on a general list of questions but differ in that the ordering of questions as well as the questions themselves can be modified to fit the respective interviewee and their expertise and experience. Especially when following actors through their network,[95] semi-structured interviews make it possible to maximize information obtained and flexibly follow leads given by informants. While the general workings of voluntary standard setting as well as public accounting are relatively well explored, the setting and diffusion of public accounting standards at the international level remain under-researched and barely understood. In this sense, the empirical work here presented is largely exploratory. In this context, semi-structured interviews are particularly appropriate.

Beyond primary documents and interviews, one source for understanding the inner workings of the IPSASB was ethnographic observation of Board meetings. On three separate occasions in 2017 and 2018, Board meetings were attended in Luxembourg, New York, and Toronto – joining all four days of each meeting as an observer.[96] This provided an important insight into the standard-setting process, into the debates that were being had, and the way the discourse was held. Between the meetings, little coffee break chats, and formal interviews, it became apparent where the conflict lines were, and what narratives were being used to settle them. Overall, thirteen meeting days were observed, totaling almost 96 hours in meeting time. Detailed notes were taken particularly at the first two meetings, resulting in 32 pages of typed-up notes. Beyond this, the New York meeting also afforded the opportunity to access the IFAC archives and make fruitful to analysis by digitization the above-mentioned large number of archival documents, mostly meeting minutes from the founding and early days of the IPSASB – or rather its predecessor, the Public Sector Committee (PSC) – as well as other parts of IFAC.[97]

To get a sense of the spread of IPSASs, extensive data was collected from IFAC's online databases. The first database contains information on the adoption status of six different

[95] To borrow an expression from Actor-Network-Theory; see e.g. Bruno Latour, *Reassembling the Social: An Introduction to Actor-Network-Theory*, Clarendon Lectures in Management Studies (Oxford ; New York: Oxford University Press, 2005), 11 f.
[96] With the exception of the Luxembourg meeting which was preceded by the meeting of the Consultative Advisory Group and which was also observed, making it five days.
[97] Besides documents from the PSC directly, this involves meeting minutes from the IFAC Council, as well as the Executive Committee and Planning Committee. As mentioned above, more than half of all analysed meeting documents –1771 pages – were digitized manually by the author. Even more documents were sighted but only those deemed useful to the analysis were digitized and collected. All documents are with the author, as well as with IFAC who have been provided with the digitized, collated, and machine-readable documents.

standards, including IPSASs, across 136 jurisdictions. The data is produced on the basis of regular reports submitted to IFAC by its national member bodies across the world. The second database is IFAC's Accountability Index. In contrast to the former database, the Accountability Index database is derived from survey data from a total of 166 jurisdictions including those that do not have any national IFAC member bodies. Surveys are sent out to relevant government departments in each jurisdiction and returned with information of the type of standard applied, as well as the accounting basis used. Both of these databases will be explored, analyzed, and discussed in Chapter 4.

Data was also collected for the individual chapters of this thesis. Much of this data is in the form of various types of documents including statistical standards maintained by IGOs, IGO project reports, and other reports by relevant actors. The collection of such further documents and the information drawn, as well as the methods applied will be discussed, where necessary, in the chapters in which they are used.

IV. Thesis Structure

As set out in this chapter, the study presented in the following six chapters has three main goals. First, it seeks to adjust the existing thinking about transnational regulatory relationships between private and public actors in order to enable the detection, description, and explanation of a previously unexamined type of regulation: transnational private regulation of the public sector. It does so by presenting a comprehensive typology of regulatory relationships able to capture this missing case. Second, it introduces, for the first time, an in-depth empirical study of a private regulator of the public sector, the IPSASB. In doing so, the thesis begins to fill an important empirical gap. Finally, third, the thesis develops a theoretical framework for understanding private regulation of the public sector in general terms, and applies it to the case of the IPSASB. The study therefore aims at opening up a new line of theorizing and research on this type of regulation hitherto neglected.

In order to achieve these goals, the study presents a rich empirical account of the "why" and "how" of the IPSASB's success as a private ruler of states. This account is structured as follows. Chapter 2 sets up the theoretical framework. It first introduces the mentioned typology of public-private regulatory relationships in order to identify and theorize private regulation of the public sector, which was missing from the literature so far. Drawing on existing theories, prominently orchestration theory, it then lays out a general theoretical approach for how to understand instances of private regulation of the public sector. As outlined above, it argues that private rulers will create demand through presenting its standards as universally portable and technically cutting-edge while at the same time discrediting existing rules. Further, private rulers will seek out credibility and legitimacy by emphasizing the technical neutrality of its standards, cloaking any potential distributional consequences. Finally, private rulers will exercise their rule mainly through strategic networking and building supply chains for their standards. They do so by enlisting and orchestrating organizations at international and national levels.

Chapter 3 then provides an introduction to the IPSASB as a case of private regulation of the public sector. It will give an institutional history of the IPSASB as well as its parent organization, IFAC, and provide an overview of the organizational ecosystem surrounding them. In its second part, the chapter then introduces the reader to key accounting concepts relevant to the thesis, before giving an overview of the IPSASs themselves. Besides providing necessary background, Chapter 3 will give a sense of the fundamentally private sector nature of the standards, the organization that sets it, as well as give a first impression of some of its efforts to mask its privateness and blur the lines to the public sector.

Chapter 4 will delve deeper into the claimed benefits of IPSASs as well as their distributional consequences, and present data on IPSASs diffusion. The first part of the chapter will show that what the IPSASB tries to sell as a universally portable solution to an incredible wide range of policy problems is deeply political and creates winners and losers. Through teasing out who wins and who loses, the chapter will also shed light on the motivations of the actors involved and thus ultimately the reasons for why the IPSASB and its intermediaries are interested in diffusing the standards. Pointing to the range of potential distributional consequences, the first part of the chapter will also clarify that, through claims of universality and superiority alone, private standards will likely not spread. The second part of the chapter then turns to examining the global diffusion of IPSASs drawing on two extensive databases. Given the mentioned range of distributional consequences, the IPSASB has been an astounding success story with almost half the world’s countries and essentially all major IGOs drawing on its standards in some form. This analysis sets up the exploration of the concrete diffusion mechanisms in Chapters 5 and 6.

Chapter 5 explains the diffusion of IPSASs by exploring the Board’s strategic enlistment of IGOs, the World Bank and IMF in particular. It makes clear that the Board draws on these organizations both as givers of legitimacy and credibility, and as major supply chains for its standards. In three parts, the chapter shows how and why the IPSASB was able to enlist powerful actors like IMF and World Bank as intermediaries in its quest to regulate states. The first part shows how the Board was able to embed its standards in existing systems for global macroeconomic statistics and argues that this was a major win for the IPSASB. The second part explores in greater depth the IPSASB's quest for legitimacy. Tracing the Board's decade-long pursuit of oversight arrangements by IGOs, the chapter shows how the Board used the establishment of a toothless oversight body to gain legitimacy while maintaining the power of the penholder and with it, the primacy in the orchestrator-intermediary relationship. The third part then shows evidence for the direct diffusion of IPSASs through World Bank and IMF lending, technical assistance, and reform projects. On the whole, the chapter paints a picture of the IPSASB as a successful orchestrator of orchestrators, wielding a surprising amount of private power vis-à-vis IGOs.

Chapter 6 completes the explanation of IPSASs success by elaborating on the IPSASB's enlistment of national-level organizations, other private actors, and the direct outreach to regulatory targets. In doing so it draws on the same theoretical idea: as a private ruler, the IPSASB relies on enlisting existing organizations with linkages to or leverage over regulatory targets in order to diffuse its standards globally. It will be seen that, far from simply following state demand or being delegated authority, the IPSASB drives the diffusion of its work product through its own agency.

Finally, Chapter 7 synthesizes the findings of the empirical analysis, reexamines the developed theoretical framework, and elaborates on the thesis' contributions to the literature. It concludes that the identification of private regulation of the public sector as a previously neglected type of regulatory relationship contributes to a more complete picture of TPR. Through drawing on existing theories, in particular orchestration theory, to explain the success of a private regulator of the public sector, the thesis contributes to the further development of those theories, showing that through changing the perspective to the supply side, they are able to cover more of TPR.

CHAPTER 2: THEORIZING TRANSNATIONAL PRIVATE REGULATION OF THE PUBLIC SECTOR

This thesis deals with a hitherto unexamined phenomenon in Transnational Private Regulation (TPR): private regulation of the public sector. While much analysis has been produced on the rise of TPR, and theories developed to capture the regulatory relationships between public and private actors in this new patchwork style of global governance, none have paid attention to, or explicitly theorized the regulatory relationships where states and state actors become regulatory targets of private standard setters. As this thesis argues and demonstrates using the in-depth case of the International Public Sector Accounting Standards Board (IPSASB), private actors are not just drawing up behavioral rules for states but are also often the drivers of disseminating their work products to their regulatory targets. By strategically enlisting relevant actors, private regulators manage to influence states, at times even coercing or directly regulating them: they are standardizing the state. Drawing on existing literature sensitive to private authority and the role of private actors in regulation, this chapter develops a general theoretical understanding of the private regulation of the public sector. The theory lays out why and under which circumstances this type of regulation emerges successfully.

Before presenting out the theoretical framework in the second part, the chapter will introduce the previously neglected private-on-public mode of regulation where private actors successfully push their rules on states. Part I begins with a brief review of the extent to which extant literature has describe states as rule-takers rather than rule-makers (I.1). Subsequently it presents a simple two-by-two matrix to illustrate the gap left by the literature and begins filling in the quadrant previously left blank in that matrix: private regulation of the public sector (I.2). Part II of the chapter will then produce general answers to the questions of why this is happening and, importantly, why private actors are successful in their efforts of standardizing the state. In brief, the answer is that private actors, especially ones that are focal or singular in their domain, will use their significant rule-making power vis-à-vis state actors to actively disseminate their standards by establishing international as well as domestic “supply chains” for their standards. These supply chains, or diffusion mechanisms, are actively created by private actors by enlisting and orchestrating powerful IGOs at the international level (II.3.1), as well as by building and enlisting local, national and subnational networks of actors that can help lobby, pressure, or even regulate the state directly (II.3.2). While pushing their standards through these channels, private actors will attempt to induce demand selling their standards as superior, highly portable solutions and attempt to delegitimize existing or competing approaches (II.1), while operating under the mask and shield of technical neutrality (II.2).

I. Transnational Private Regulation of the Public Sector

This section introduces a simple typology of regulatory relationships between public and private sectors to argue that there is an almost complete neglect of the state as a potential target of regulation. While a wealth of scholarship examines the astounding proliferation of private regulation in global governance, private actors seem to be mostly treated as an accessory to regulation. Many have recognized that states are not alone in formulating rules and have become rule-takers as much as rule-makers, but the final target of those rules is commonly seen to be businesses or other private actors. However, as this thesis argues, states can be regulatory targets, too. In fact, there are private rule-makers actively seeking to standardize the state. This section lays the groundwork for the theory to follow by introducing the phenomenon of the private regulation of the public sector.

I.1. The state as a rule-taker

In their seminal work on business regulation, Braithwaite and Drahos argue that "the extent to which states have become rule-takers rather than rule-makers is greater than most citizens think".[98] Among others, they give the examples of Australia's air safety standards being mainly written by the American aerospace company Boeing, and of Australia's ship safety laws which are mainly set by the International Maritime Organization. The authors argue that a "new regulatory state" has arisen in the last two decades of the twentieth century, where the state mostly oversees and endorses self-regulation – which leads to a situation where "state regulatory policies are just as much constituted by as constitutive of private regulation".[99] Others speak of the same trend[100] and conclude that, especially in the world of voluntary private standards, "more often than not, states are rule-*takers*".[101]

[98] Braithwaite and Drahos, *Global Business Regulation*, 3.
[99] Braithwaite and Drahos, 28.
[100] See e.g., Cafaggi, "New Foundations of Transnational Private Regulation."
[101] Panagiotis Delimatsis, "Introduction: Continuity and Change in International Standardisation," in *The Law, Economics and Politics of International Standardisation*, ed. Panagiotis Delimatsis, Cambridge International Trade and Economic Law (Cambridge, United Kingdom: Cambridge University Press, 2015), 1–16, emphasis in the original.

Similar findings are reported by Jacobsson, one of the few to explicitly look at the phenomenon of the regulation of regulators. The author describes states as being increasingly scripted and acting "less as autonomous rule-makers and more as embedded rule-followers or rule-enforcers".[102] The state is embedded in a network of international and supranational organizations whose rules it will have to enforce in its territory. State rulemaking is decreasingly autonomous and increasingly scripted as international and supranational procedures need to be taken into account. Private organizations claim special expertise to pave the way for their rules and gain legitimacy by clustering around central actors in regulatory fields such as the International Monetary Fund (IMF). In this context, states' rule-making autonomy is constrained as they are "embedded and enveloped in fields of organized governance".[103]

It is of course not the case that TPR is something that is simply happening to states, or that they are entirely outpaced by private regulation. In fact, a lot of regulatory authority may be willingly left to private institutions. For governments, explicitly or implicitly outsourcing regulation can not only free capacities and save cost but can also be a means of blame avoidance and blame shifting. For example, in a financial crisis it can be more politicly viable to be able to point to the failure of privately set international standards than admitting government policy was flawed. Additionally, TPR can serve to lock in policy preferences by enabling claims that something is internationally recognized best practice, thus helping play the "two-level game"[104] and bypass national parliaments.

Abbott and Snidal argue that states and international organizations can even make use of private actor schemes in global governance to strengthen their own performance, by acting as the orchestrators of the emerging network of public, private, and hybrid institutions in the transnational realm.[105] In this emergent, so far mostly spontaneous "Transnational New Governance", the state assists and encourages self-regulation of industries, supports private regulatory efforts, and initiates and leads public-private hybrid schemes. With states and international organizations as orchestrators of transnational regulation, the authors argue the

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[102] Bengt Jacobsson, "Regulated Regulators: Global Trends of State Transformation," in *Transnational Governance: Institutional Dynamics of Regulation*, ed. Marie-Laure Djelic and Kerstin Sahlin-Andersson (Cambridge: Cambridge University Press, 2006), 212.
[103] Jacobsson, 206.
[104] Robert D. Putnam, "Diplomacy and Domestic Politics: The Logic of Two-Level Games," *International Organization* 42, no. 3 (1988): 427–60.
[105] Kenneth W. Abbott and Duncan Snidal, "International Regulation without International Government: Improving IO Performance through Orchestration," *The Review of International Organizations* 5, no. 3 (September 2010): 315–44.

"state failure"-problem of the traditional, state-centered model of global governance they call "International Old Governance", as well as the potential "market failure"-problem of spontaneous and uncoordinated regulation, can be solved at the same time.[106] This not only means that states can use orchestration to maintain or gain influence but also that orchestration by state-backed actors is ultimately important for the effectiveness of large parts of TPR. Their actor-specific competencies, especially independence and representativeness can be vital in the regulatory process, particularly the agenda-setting, negotiation, and enforcement stages.[107]

This growing literature shows that in times of truly global governance, the regulatory state, and TPR, it is important to recognize that "states are both regulators *and* regulated".[108] Rather than taking the state at face value, we must more systematically chart its embeddedness in wider regulatory systems and make explicit the associated consequences for state agency and autonomy. In doing so, this thesis is generally in line with the gist of the extant literature taking TPR seriously. It can therefore root itself in existing theoretical approaches.

However, at the same time the thesis attempts to launch a novel research agenda remedying the neglect of the state as a regulatory target for private regulators. Even the literature sensitive to private power and authority in TPR and the politics surrounding it, will commonly still see the state as a regulator and private actors as targets even where the state is described as a "rule-taker". The state as a "rule-taker" in this sense means that it draws on private rules and adopts (and possibly adapts) them in order to regulate private actors under its jurisdiction. In this view, the state outsources rulemaking to private actors, enlisting them as intermediaries in regulation.[109] Private authority is granted, and private rule-makers enlisted, depending on state demand for additional regulatory capacity.[110]

Theories like regulatory intermediary theory, orchestration theory, and other accounts of private authority do not in principle exclude the possibility of the state as an explicit regulatory target. None of them, however, explicitly theorize about the scenario where private actors are the regulators and states the targets. No work building on these theories has, to the knowledge of

[106] Abbott and Snidal.
[107] Abbott and Snidal, "The Governance Triangle: Regulatory Standards Institutions and the Shadow of the State."
[108] Jacobsson, "Regulated Regulators: Global Trends of State Transformation," 222.
[109] See, e.g.: Abbott, Levi-Faur, and Snidal, "Theorizing Regulatory Intermediaries"; Abbott et al., "Orchestration: Global Governance through Intermediaries."
[110] See, e.g.: Green, *Rethinking Private Authority*; Jessica F. Green, "Transnational Delegation in Global Environmental Governance: When Do Non-State Actors Govern?," *Regulation & Governance* 12, no. 2 (2018): 263–76.

the author, paid explicit attention to the puzzling phenomenon of private regulation of the public sector. This thesis argues that, to get the full picture of TPR, it is necessary to shed light on private actors whose rules target states. To fully understand this puzzling phenomenon, it is necessary to shift perspective and analyze it from the supply side, putting private agency at the center. The following typology of public-private regulatory relationships will further elucidate that gap in the literature and introduce the phenomenon of private regulation of the public sector.

I.2. A typology of public-private regulatory relationships

This section uses a simple two-by-two matrix to represent the possible regulatory relationships between private and public actors (see *Table 2.1*). Either actor type can appear as ruler or ruled. "Rulers" shall mean rule-makers who are *de facto* regulators. This refers to actors writing and successfully distributing rules to their regulatory targets. These actors can significantly influence the likelihood of rule adoption by their targets through drawing on a variety of sources of power potentially including but not limited to formal-legal authority, as well as through enlisting others to do their bidding. These can be actors as diverse as private voluntary standard setters, industry associations, individual companies, international organizations, regulatory agencies, or ministries. In a much wider sense this definition can incorporate standard setters and organizations writing best practice guidelines who distribute their output in a non-specific way, for example, by simple publication on a website. For now, however, "rulers" will be understood in a narrower sense meaning organizations not only making rules but also successfully diffusing them towards the intended regulatory targets. The "ruled" are actors that are the specific target of the rules set by the respective rulers. As with the rulers, this set of actors is naturally diverse and will often encompass the same organizations that might appear elsewhere as rulers. Traditionally, we may think of private companies, private citizens, or professions, but as we will see (and have begun to see above) this can extend to actors that we commonly only think of as regulators: public sector organizations and regulatory agencies. In this sense, the typology not only includes who sets the rules and who is subjected to them but is also sensitive to who has the power to make other actors follow their rules.

Ruled

		Private	Public
	Private	*Type 1: Self-regulation*	*Type 4: Private regulation of the public sector*
Ruler	Public	*Type 2: Traditional regulation*	*Type 3: Administrative law, codes of conduct*

Table 2.1: *Possible public-private regulatory relationships. "Rulers" are de facto (and in some cases also de jure) regulators who write rules and make others, the "ruled", follow them.*

The resulting four quadrants from the tabulation encompass all possible types of regulation. Type 1 are all forms of regulation where privately set rules are directed at private actors. All instances of self-regulation or enforced self-regulation[111] fall into this quadrant. A traditional form of self-regulation is that of the free professions reaching back at least as far as the mediaeval guild. The transnational mediaeval merchant community regulating itself in the form of *lex mercatoria* mentioned earlier would be a sub-form of this. In fact, the majority of the TPR literature deals with either Type 1 or Type 2 regulation, including most examples given earlier. Even when authors speak of the state as a rule-taker, what they are usually referring to is that states did not write the rules but are enforcing externally written rules in their jurisdiction: the state takes private rules, adds its authority, and passes them on to the (private) regulatory targets.[112] In this scenario of the state may be a rule-taker, in the sense that it is not the actual rule-author, but it is also not the ultimate target of the rule. In certain cases of enforced self-

[111] Enforced self-regulation is when the state leaves the design of the regulatory system to the regulatory target but retains certain elements of monitoring and enforcement to ensure compliance with the mandated self-regulation. For example, there could be a reporting requirement, see: John Braithwaite, "Enforced Self-Regulation: A New Strategy for Corporate Crime Control," *Michigan Law Review* 80, no. 7 (June 1982): 1470; Cary Coglianese and Evan Mendelson, "Meta-Regulation and Self-Regulation," in *The Oxford Handbook of Regulation*, ed. Robert Baldwin, Martin Cave, and Martin Lodge, Oxford Handbooks (Oxford: Oxford University Press, 2010), 150.

[112] e.g. Braithwaite and Drahos, *Global Business Regulation*; Jacobsson, "Regulated Regulators: Global Trends of State Transformation."

regulation it may be, depending on the exact configuration, be most accurate to speak of the state of as an intermediary in private self-regulation. The remaining cases of Type 2 regulation are traditional regulation of the private sector by the state and its regulatory agencies, ministries, and other institutions, including but not limited to forms of classic command and control regulation.

Like Type 2 regulation, Type 3 relationships have the state and state-run international organizations as the ruler. It comprises the ruling by the state of its own institutions and agencies. Administrative law falls into this category and so do other, softer regulatory means through which the state organizes and regulates itself such as departmental codes of conduct, policy directives, and executive orders. An international case of Type 3 regulation are international governmental organizations. Member states agree to collectively govern themselves for the sake of cooperation gains – however, they will still jealously guard their sovereignty. The organization of the state itself seems so close to the core of sovereignty that it is *prima facie* a very unlikely candidate for the application of private rules much less significant private power – this is the purview of elected governments, constitutional checks and balances, and independent public oversight bodies. The state may have become rule-taker in ruling private actors, but it is usually not suspected to be regulated by them.

The last quadrant of the table (Type 4) is thus commonly left blank. Over the past decades, the growing TPR literature discussed above has shown that we need to think of private actors as rulers, too. In the world of TPR there are global co-rulers: public rulers and private rulers share a complex stage. Viewing the TPR literature through the lens of the above typology, existing accounts are surprisingly lopsided: governance is always directed at private actors. The state is only ruled by itself. Empirically, however, we observe well-established regulatory regimes that are examples of the fourth type: private regulation of the public sector. Type 4 regulation describes a regulatory relationship where a private body sets rules specifically targeted at the public sector and is in a position to elicit adoption of such rules by the regulatory targets. In this equation, states appear mostly as adopters of privately written rules. The literature exhibits a large gap when it comes to explicitly exploring this type of regulatory relationship where the arrow runs from private to public.

To the knowledge of the author, the only notable exception to this neglect is work by Colin Scott on private standardization and private oversight of the public sector.[113] Scott distinguishes three categories of private regulators based on the type of legal mandate they operate on. First, he describes a group of organizations conducting monitoring or enforcement on a statutory basis, making them quasi-public. Examples of this group are the contracting out of public audit and the Royal Society for the Prevention of Cruelty to Animals (RSPCA) which monitors animal welfare in public and private sectors in the UK, including the welfare of police dogs.[114] Second, there is a group of private organizations with a contractual mandate operating on a more voluntary basis. This is where international standard setters such as the International Organization for Standardization (ISO) and corresponding certification bodies enter the stage. Certification of public sector organizations according to management standards such as ISO9001 is substantially a form of direct regulation of public sector management and organization. Similar power, Scott argues, resides with insurers setting standards for conduct regarding risk, ultimately enforcing compliance through premium levels. For both cases, Scott finds that they are "not much documented"[115] in the literature. Thirdly, he identifies a group without any form of legal mandate, which instead derives power from information, organization, or wealth. This relatively broad group of actors includes pressure groups pursuing public interest litigation, credit ratings agencies exerting pressure through information, and investigative journalism providing effective systematic oversight of government activity. To this, one could probably add the influence of management consultants in government[116], as well as institutions such as investor-state dispute settlement that give significant power to private actors. There thus seems to be manifold subtle and less subtle, implicit and explicit private regulation of the public sector.

To limit the scope, the following chapters are restricted to one specific case of the explicit and deliberate regulation via written private standards targeted at the public sector – a phenomenon this thesis calls "private regulation of the public sector". Captured by it are all cases where

[113] Colin Scott, "Private Regulation of the Public Sector: A Neglected Facet of Contemporary Governance," *Journal of Law and Society* 29, no. 1 (2002): 56–76. Though there are more recent efforts in exploring the interaction effects between private and public regulation, the direct form of standardization of the state remains underexplored, see for example: Nicolas Schmid et al., "Governing Complex Societal Problems: The Impact of Private on Public Regulation through Technological Change," *Regulation & Governance* Early View (2020).
[114] cf. Scott, "Private Regulation of the Public Sector," 62f.
[115] Scott, 66.
[116] Besides consultants serving as agents of change and diffusion, it has also been argued that their over-use erodes state capacity over time. See, e.g., Irvine Lapsley and Rosie Oldfield, "Transforming the Public Sector: Management Consultants as Agents of Change," *European Accounting Review* 10, no. 3 (September 2001): 523–43; Mariana Mazzucato and Rosie Collington, *The Big Con: How the Consulting Industry Weakens Our Businesses, Infantilizes Our Governments and Warps Our Economies* (London: Allen Lane, 2023).

private actors set and actively diffuse rules that are explicitly targeted at altering the way the public sector is managed, overseen, or conducts its business.[117] In the second part of this chapter, a general theoretical framework is developed for understanding the "why" and "how" of this type of regulation. Zooming out, this theory can likely be broadened to capture all cases where private actors attempt to regulate or alter state behavior. The general point is therefore in line with Scott's: Private regulatory activities can and do significantly constrain and steer governmental activity and state behavior at all levels.

The above typology of regulatory relationships is helpful for pointing out the literature gap and for beginning to think about the interactions between TPR and the state in a more comprehensive way. However, while the typology is conceptually clear in that it captures the universe of possible regulatory relationships between private and public sectors, in reality there may be borderline cases. At this point it is useful to briefly reflect on potential fuzziness and to clarify how this thesis deals with these cases. For this purpose, it is helpful to consider the two main distinctions the typology is built on: the public-private distinction and the ruler-ruled distinction.

First, to be able to speak of private and public rulers, it is necessary to be able to assign actors to those two spheres. This is usually straightforward for cases like government departments and private companies. However, in the transnational regulatory space it can often appear less clear-cut. How, for example, do we treat privately owned organizations that have a statutory mandate to set standards or oversee a certain regulatory domain? The RSPCA mentioned above is one case of this. Similar challenges may be posed by quasi-autonomous non-governmental organizations, or "quangos", operating at arms-length from government departments. Conversely, how do we treat businesses of which the government has majority or full ownership?[118] I will follow Scott in focusing primarily on ownership and control as the determining factor. This method should lead to relatively clear distinctions in most cases. Since I am offering an in-depth case study, there will also be enough room to fully explore the degree

[117] Therefore, cases like investor-state dispute settlement, while very interesting, are not part of the scope of this thesis. While powerful private actors may yield significant power over (especially developing) states, this is not a case of private rule-making. Instead, investor-state dispute settlement is based in bilateral treaties and fought by applying international law. For a good introductory—albeit critical—overview see: Columbia Center on Sustainable Investment, "Primer on International Investment Treaties and Investor-State Dispute Settlement," Columbia University, January 2022, https://ccsi.columbia.edu/content/primer-international-investment-treaties-and-investor-state-dispute-settlement.

[118] E.g. so called "Government Business Enterprises".

of privateness or publicness. As will be seen, blurring the lines between public and private can be a deliberate strategy for private regulators.

The second important distinction is that between ruler and ruled. One straightforward way to separate these two types of actors would be to look at formal-legal authority. However, not only can formal-legal authority be obscure and uncertain in transnational settings, but this view would collapse many cases of private regulatory involvement to regulatory intermediary relationships. TPR turns into deliberate delegation or contracting out of regulation which conceals the agency and independent effect of private regulators. This can obscure what is most interesting from an international relations perspective: actual power-distributions. Instead of looking for formal authority, I argue that it is more useful to distinguish ruler and ruled in terms of both who writes the rules as well as in terms of power and its locus. Recognizing power sources besides legal authority shifts greater focus on the fact that, sometimes the *de facto* regulators are private and the *de facto* regulatees public. Formal-legal authority is only one of many possible sources of power. Especially "softer" ones such as expertise, reputation, or material resources are often concentrated in the hands of private actors.

A function of viewing regulatory relationships in terms of power is not expecting to find "pure" forms of rulers and ruled in the empirical world. "Pure" cases of type 4 regulation should be particularly rare, given that private actors with formal-legal authority to set standards for states will be relatively rare. However, as the case will show, instances of formal regulation of the public sector by private actors do exist. At the same time, not all traditional regulation of the second type is as pure as we may think. Even with traditional legislation we find cases where lobbyists end up actively drafting most of a bill: just because the state's formal-legal authority made it law, we should not neglect the significant power manifest in having written the rule.[119] Even if a state should adopt private rules via an endorsement mechanism that leaves ample room for cherry picking, we must recognize the regulatory power inherent in authoring a rule and being able to diffuse it to the public sector.

[119] Reviewing previous studies, Amy McKay finds that upwards of two-thirds of all lobbyists in the US (state and federal level) help draft legislation, see: Amy Melissa McKay, "The Decision to Lobby Bureaucrats," *Public Choice* 147, no. 1–2 (April 2011): 124. For an immediate example, see the case of the US House of Representatives in 2013 voting in favor of two bills rolling back some of the financial regulation passed in the 2010 Dodd-Frank Act – despite one of the bills being mainly drafted by Citigroup lobbyists with 75 out of 80 lines of the bill reflecting their recommendations: Eric Lipton and Ben Protess, "House, Set to Vote on 2 Bills, Is Seen as an Ally of Wall St.," The New York Times, October 28, 2013.

As Mattli and Seddon have argued, even when states actively co-opt nonstate actors for transnational regulation, there is a danger that leadership unintentionally shifts towards the co-opted institution.[120] This is because of the information asymmetry between the expert rule-makers and the co-opting states, because rule-makers take the decisions and set the agenda, and because once rules are set, they can be very hard to change. The "power of the penholder" [121] is likely to be especially strong when the co-opted partner does not only have the rule-making role but is also either singular or focal in its field of regulation. If this is the case, then certain schemes of TPR might in the long run draw away some influence even from economically powerful and important orchestrators.[122] This will be expanded on in the theory below.

Whether sought out by states or not, these developments are significant, and we need to view states as less autonomous while recognizing the agency and independent power of private regulators. Private regulation of the public sector matters and exploring more closely the nuances of public-private regulatory relationships is a promising research agenda. This thesis sets out to be a step on that research agenda by exploring one case of private regulation of the public sector – the IPSASB – in the chapters to come. In order to theoretically grasp that case and others like it, the second part of this chapter will draw on existing theories to develop a new perspective centering on private power.[123]

II. Theorizing the "Standardization of the State"

While intangible, the production and dissemination of technical standards follows similar logics as that of any other product. To make it more tractable, it can be described in the language of supply and demand.[124] Others have argued that state demand for beneficial private rules is a key driver for the development and dissemination of private rules. However, just like the marketplace for goods and services, the marketplace for regulation does not run entirely on demand. Most products are made without a concrete wish of any one consumer. Design and production will be influenced by market research and some sense of what demand might look

[120] Walter Mattli and Jack Seddon, "New Organizational Leadership: Nonstate Actors in Global Economic Governance," *Global Policy* 6, no. 3 (September 1, 2015): 266–76.
[121] Mattli and Seddon, "The Power of the Penholder: The Missing Politics in Global Regulatory Analysis."
[122] Orchestrators in the sense of Abbott and Snidal, i.e. international organizations, see: Abbott and Snidal, "International Regulation without International Government."
[123] "Private power" rather than "private authority" is used in order to signify that this thesis is more interested in actual power distributions and taking into account all possible sources and exercises of power, including coercion. "Private authority" on the other hand tends to imply consent by the rules and requires legitimacy being granted. Green, *Rethinking Private Authority*.
[124] In line with Green, this does not in any way imply the development of an economic model but is employed as a useful metaphor, see: Green.

like. However, consumers hardly ever have an explicit and clear image of a specific product in mind – in fact, much of our economies depends instead on coaxing demand out of consumers and making them want things they did not know they wanted or needed. The onus is very much on the seller: it needs to be made explicit to customers why they might need the product, and how it is superior to similar products they may already be using. Of those products, few will be strict necessities, and most will be nice to have at most. The fact that much of the business models of giant corporations like Google can be centered around advertising underlines the importance of driving demand from the supply side. Additionally, beyond creating demand, a supplier will also have to make sure it is seen as trustworthy as well as ensure that it has the supply chains to deliver its products. The supply of intangible, highly technical rules such as accounting standards works much the same way.

This section argues that, like businesses trying to sell products to consumers, private rule-makers will do everything in their power to drive diffusion and adoption of their work products. First, private rule-makers will need to create demand by promising potential adopters benefits over existing rules. Part of that strategy is to discredit status quo rules. Second, private regulators will need to project that they offer legitimate and credible standards that are politically neutral. Only if they can maintain the mask of technical neutrality will they be acceptable to states. Third, and most importantly, they will need to establish functioning supply chains for their standards. In the processes, standard setters will seek to engage and orchestrate powerful IGOs to gain leverage over states, as well as build their own networks with domestic actors capable of reaching governments. Drawing on existing theories and expanding on them, this section will arrive at a simple, general answer to the question of why and under which conditions private actors may be successful in regulating the private sector. Subsequent chapters will then put that answer to the test by investigating how the IPSASB came to standardize states.

II.1 Creating demand for private rules

Jessica Green argues that the emergence of private authority "can be explained by the anticipated benefits".[125] Potentially governed actors, she argues, begin demanding private rules when they realize that they will stand to benefit from them via reduced transaction costs, enhanced credibility of commitment, first mover advantages, or reputational gains.[126] While this thesis disagrees with the extent to which Green sees adopters as free to choose, and

[125] Green, 39.
[126] Green, 41ff.

authority as granted it does agree in an important regard: especially where standard setters are not delegated formal authority, they need to "peddle their ideas"[127] and sell them as superior to the alternatives. A few words will first be said on the nature of demand and the implications for explaining why private regulation of the public sector emerges. The rest of the section explains the sales strategies of private regulators.

II.1.1 Inducing demand

As this thesis will demonstrate, transnational private regulators construct elaborate global networks spanning a significant range of actors including IGOs, international corporations, national standards setters and professional organizations, as well as departments and individuals within executive government. Each of these actors has their own set of interests and motivations for enlisting or being enlisted, for orchestrating or being orchestrated, for pushing standards or adopting them. The ultimate drivers of each of these actions are a complex mix of factors for each individual actor. For example, in voluntary private standard setting, members of standards bodies are usually not renumerated.[128] While they are often sponsored by their respective employers, their participation in these bodies requires them to lend substantial temporal resources. They would not do so, if they did not see a benefit. In part, their motivation derives simply from the believe that setting technical standards in their domain is an important thing to do and that their approach can solve problems better than existing ones. In part, however, they are also motivated by the fact that sitting on a standards board – especially one recognized as the singular or dominant forum in the respective domain – will raise their profile and enhance their professional opportunities. In part, it is their employers who see a benefit in supporting their participation in standard setting, hoping to gain influence or extract information.[129] For standard setters as organizations, expansion of their domain and fighting competitors over focality is a function of their collective will for organizational survival. This collective will is constituted by participants' individual interest.

Organizations that support the standard setter, draw on its standards, or are enlisted by it to advocate on its behalf, will do so either because they are coerced or because they were convinced it aligns with their interests. In Chapter 5 the case will be made that, for example, those groups within IGOs that need to come up with Public Financial Management (PFM) reform projects will draw on IPSASs because having a ready-made product for accounting

[127] Green, 34.
[128] With exceptions for certain permanent staff members or, in the case of the IPSASB, the Chair.
[129] Interview 3.

reform makes their jobs easier. The same chapter will also show that not all regulatory targets have a choice – especially developing countries on the receiving end of said PFM reform projects. Similarly, Chapter 6 domestic will show that accounting functions within treasury departments may be convinced to champion adoption of accounting standards in their jurisdiction because it will aid them in pursuing their objectives and empower them vis-à-vis other actors in the bureaucracy.

Therefore, among the actors in distribution networks of private standards, there usually appears to be a sizable degree of convergence of interests. However, as this thesis demonstrates, it would be inaccurate to simply view the setting and spread of private standards as some sort of emergent property of an *a priori* configuration of interests in the international system.[130] Instead, supporters and intermediaries have to be enlisted through tireless strategic networking by the private regulator. One of the most important components of this is for a would-be private regulator to reveal to intermediaries and targets why its rules are in their interest and to stimulate further demand by actively discrediting existing solutions. This thesis therefore focuses on exploring the strategies pursued by private actors to induce demand and diffuse its standards. Thus, when one asks why private regulation of the public sector emerges, the answer is: because private regulators are selling. Any exploration of this type of private regulation – and arguable any type of TPR – needs to explain the "how" and "why" of private regulators' sales strategies and successes. The first step, as argued here, is to advertise one's standards as geographically and contextually portable, as well as induce demand by demonstrating the need for new solutions in the form of one's standards.

II.1.2 Portability and universality

This thesis argues that to successfully sell its ideas, a private regulator must convincingly maintain a narrative that its standards are highly portable both geographically and in terms of the problems they can solve. This type of claim to universality is vital to successful diffusion. Geographical portability is not just important for maximizing the potential userbase of the standard but also because a standard setter whose standard only solves issues in a specific geographical context will not be able to respond to demands for harmonization and claim its standards are solutions to cooperation problems. At the same time, not all prospective targets will have the same problems, which makes it important that a standard is sold as portable to

[130] It is also important to keep in mind the distributional consequences technical standards can have. As Chapter 4 will explain, for each "winner" in adopting private standards such as IPSASs, there tend to be multiple "losers".

different problem contexts. This allows the standard setter to make its standard relevant to many different targets with diverse problems, achieving a truly universal solution. In this sense, claims to portability tie to the claim of technical neutrality discussed in the following section. Together, they present the standard as a universal solution, a multitool for manifold problems faced by a multitude of actors.[131]

Claims to universality are familiar from transnational standard setting and private ideas diffusing to the public sector. Hood argues that proponents of the New Public Management (NPM) successfully claimed universality of their ideas by both presenting them as apolitical and by arguing that they may solve a host of public "management ills" across vastly different context ranging "from Denmark to New Zealand, from education to health care, from central to local government and quangos, from rich North to poor South", ultimately creating a "public management for all seasons".[132] Of course, as opposed to NPM, which encompasses a wide array of ideas, this thesis is concerned with specific rules. In fact, many standards seeking to regulate the public sector are likely to fall under the umbrella of NPM at least partially. However, just like broader NPM ideas, the specific types of standards at the heart of this thesis are ideas about how states should manage or behave. Therefore, it is not unreasonable to expect that specific standards targeting the public sector will be benefited by similar strategies. The International Organization for Standardization's (ISO) management standards such as ISO9001 and ISO14001 are examples of this: both claim to be completely applicable indifferent of organizational type or context.

II.1.3 Claiming success and discrediting the status quo

In order to aid their claims to portability, standard setters have to have on hand well-argued narratives for how their standards are technically superior solutions. Part of these narratives flows simply from their claim to being in possession of superior, credible, and legitimate expertise. However, to sell their version of the story, standard setters will also draw on what Sahlin-Andersson would call "edited success stories".[133] According to Sahlin-Andersson, drawing on a prototypical example of organizational success – such as how Silicon Valley developed into a hub for technological innovation – consultants, professionals and researches will abstract and mediate the story about the success of an organizational form – in this case the

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[131] Christopher Hood, "A Public Management for All Seasons?," *Public Administration* 69, no. 1 (Spring 1991): 3–19.
[132] Hood, 8.
[133] Kerstin Sahlin-Andersson, "Imitating by Editing Success: The Construction of Organization Fields," n.d., 24.

research park – thereby facilitating mimicry. Transferred to the example of private standards for the public sector, private regulators will benefit from drawing on a concrete example where their standards or the principles that underpin them were successful. These stories can be edited to exclude potential failings and to claim geographical universality.[134] In the context of IPSASs this success story is provided by New Zealand's early experience with accrual accounting standards.

As a parallel strategy, standard setters will actively work to problematize and discredit existing solutions and standards. Just like the New Public Management presupposes the existence and inferiority of a certain kind of "old" public management, private regulators will either decry the lack of solutions or discredit existing ones. When Osborne and Gaebler, in their canonical volume on NPM, suggested principles for "reinventing government", they tied them to straightforward claims about how the old systems had failed, for example that "normal government budgets encourage managers to waste money".[135] Whether selling a product to consumers or pitching a private standard to governments, the producer needs to make clear why the product is needed and why it is superior to competing products. Therefore, private regulators complement advocacy for their standards with critiques of current approaches and competing standards. The benefits of the new and the failings of the old go hand in hand.

Through the above strategies, private standard setters create demand for their standards and increase the likelihood of adoption. This thesis argues that those strategies will be more successful the more states and IGOs exhibit a capacity deficit in the area the standards target. This is because if the private actor is successful in problematizing existing approaches to the problems its standards offer solutions to, or if states themselves realize a problem with their current approach, private expertise is more likely to be drawn on if states have a deficit in expertise and capacity to set standards themselves. TPR literature has long placed emphasis on capacity issues as a key driver of private regulation. Lack of willingness and capability of states to regulate certain markets and their general decline in regulatory capacity in the face of global transformations have been described as necessary conditions for the emergence of TPR.[136] In the face of economic globalization, harmonization promises efficiency gains through reduced transaction costs but escapes the regulatory reach of nation states with intergovernmental

[134] There will likely also be some allowances made for deviations in local adoption. This flexibility will have to be balanced with any claims of benefits from harmonization.
[135] Osborne and Gaebler, *Reinventing Government*, 4.
[136] Cafaggi, "New Foundations of Transnational Private Regulation"; Pattberg, "The Institutionalization of Private Governance"; Nölke and Graz, "Conclusion: The Limits of Transnational Private Governance."

cooperation being too slow or politically constrained.[137] This, it is said, drives the demand for private standards as an efficient focal point.[138]

This thesis agrees with the diagnoses of the wider TPR literature. However, it takes issue with the functionalist gist of much of that discussion which often tends towards a narrative of regulatory outsourcing to private actors for efficiency gains. There is no denying that there is increasing demand for flexible, private rules, as well as that states face major capacity issues regulating transnational affairs. However, this thesis argues that, if we "go back" and look,[139] we will see that private actors had a hand in creating demand. Private regulation, especially private regulation of the public sector, does not work like a buffet where private actors offer solutions and wait for states serve themselves to the best ones. "If you build it they will come", the argument goes, is not the observe reality. Instead, to quote a former IPSASB chairman: "if you have a good idea, you have to shove it down their throats".[140]

II.2 Maintaining the mask and shield of technical neutrality

Since private rule-makers usually do not possess formal-legal authority, they tend to rely on expertise instead.[141] While expertise is not the only source of legitimacy for private rule-makers, technical expertise is commonly seen as a necessary condition to acquire rule-making authority.[142] The supply of technical expertise is often argued to be one of the key reasons for the emergence of TPR in the first place: As the pace of innovation especially in highly technical fields increases, states and regulators are at risk of lagging behind. Private actors with

[137] Mattli, "Beyond the State?: Are Transnational Regulatory Institutions Replacing the State?"; Büthe and Mattli, *The New Global Rulers: The Privatization of Regulation in the World Economy*; Büthe, "Private Regulation in the Global Economy"; Cafaggi, "New Foundations of Transnational Private Regulation."
[138] Krisch, "Capacity and Constraint: Governance through International and Transnational Law."
[139] "Functionalism" is used here to describe theoretical approaches that explicitly or implicitly assume institutions and institutional change can be explained by the need for them: they exist because they fulfil a certain function. This is not to say that functionalism cannot in some cases provide powerful and parsimonious explanations. However, it is not enough to assume the effects of an institution are directly linked to the explanation for its emergence – instead, "we have to go back and look". Paul Pierson, "Increasing Returns, Path Dependence, and the Study of Politics," *The American Political Science Review* 94, no. 2 (2000): 264. This is often not done in less sophisticated versions of functionalist approaches as well as in some efficiency-based or rational choice explanations. As Thelen puts it: "Less careful applications of these arguments sometimes suggest that the origins of the institutions can be "read backward" off their current functions or features". Kathleen Thelen, "How Institutions Evolve: Insights from Comparative Historical Analysis," in *Comparative Historical Analysis in the Social Sciences*, ed. James Mahoney and Dietrich Rueschemeyer, 1st ed. (Cambridge University Press, 2003), 218.
[140] Interview 4.
[141] Avant, Finnemore, and Sell, *Who Governs the Globe?*
[142] Cf. e.g. Green, *Rethinking Private Authority*, 32.

specialized knowledge, maybe even themselves involved in the innovation process, can help regulation keep up.[143]

For private expertise to be acceptable to state actors – as well as any other type of regulatory target – it needs to be seen as credible and legitimate. There are a number of vital ingredients to create this kind of acceptable expertise which would-be private regulators seek out. At least three components of acceptable expertise stand out. First, experts involved in rule-making need to be seen as credible and unbiased. This is one of the reasons for why in private voluntary standard setting, it is customary for participants to officially act as independent experts rather than as representatives of the countries or organizations they are from.[144] In private regulation of the public sector, I argue that private regulators will seek to attract experts with specific public sector expertise or experience in order to make their output more acceptable to states. This can also help mask the extent to which the standard setter is a private organization potentially skewed by private interests. Second, the standard setting process needs to be transparent and feel open and responsive to the constituency. In voluntary standard setting it is common practice, for example, to expose draft standards to the constituency for comment.[145] It has been shown in the context of private sector financial reporting standards, that these types of adjustments to the standards output are made strategically to help convince powerful actors to sign on.[146] Third and importantly, the standards and the intent of the standard setter need to be seen as neutral, technical, and free of political bias. Political neutrality is a vital component of legitimate and credible expertise. For private actors to have their expertise drawn on, their technical solutions cannot be seen to have obvious distributional consequences that would make their application political – even if they in fact do have major distributional implications. This, I argue, is even more true for private actors who hope to regulate states.

One example for the importance of technical neutrality comes from Burley and Mattli, studying the how the acceptance and use of the European Court of Justice's (ECJ) rulings – a key drivers for closer legal, economic, and political integration of Europe – was "sold" to its constituency

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[143] See e.g., A. Claire Cutler, Virginia Haufler, and Tony Porter, "Private Authority and International Affairs," in *Private Authority and International Affairs*, ed. A. Claire Cutler, Virginia Haufler, and Tony Porter, SUNY Series in Global Politics (Albany: State University of New York Press, 1999).
[144] Thomas A. Loya and John Boli, "Standardization in the World Polity: Technical Rationality over Power," in *Constructing World Culture: International Nongovernmental Organizations since 1875*, ed. John Boli and George M. Thomas (Stanford: Stanford University Press, 1999), 169–97; Craig N. Murphy and JoAnne Yates, *The International Organization for Standardization (ISO): Global Governance through Voluntary Consensus*, Global Institutions Series (London: Routledge, 2009).
[145] Loya and Boli, "Standardization in the World Polity: Technical Rationality over Power"; Murphy and Yates, *The International Organization for Standardization (ISO)*.
[146] Martinez-Diaz, "Strategic Experts and Improvising Regulators."

by ECJ judges. One crucial, overarching strategy of the Court was that all advocacy was done under the "mask and shield"[147] of technical-neutral legal arguments. Whatever their ultimately profound political implications, the ECJ's efforts needed to be framed solely in terms of nonpolitical objectives like improving rule of law or bolstering the economic efficiency of the European Community. This worked to both mask the political impacts as well as draw the discussion to a technical level, forcing any political opponent to formulate opposition in technical rather than political terms, thus acting as a "shield".[148]

A court's legitimacy rests on its decisions being perceived as neutral-technical and non-political. While it may have an agenda and its decisions have major political implications, its rulings need to appear untainted by politics. This is similar in the domain of private standard setting. The politics of law – and technical standards – need to be masked by technical-neutral authority. This does, however, not mean that judges and standard setters are inherently hypocritical. In fact, they will likely perceive themselves as technical-neutral and non-political because of their socialization and because technical rules as black boxes[149] are very effective "masks".[150]

I argue that transnational private standard setters will work to maintain the mask of neutral-technical legitimacy as they diffuse their standards. One way to do so is to achieve endorsements by IGOs – whether formal or just *de facto* through use of standards. As will be explained below, associating with powerful intergovernmental organizations lends credibility and legitimacy, even if member states never formally voted or if standards are not formally endorsed. Getting representatives of IGOs involved as observers on the board and organizing

[147] Burley and Mattli, "Europe Before the Court," 72.
[148] Burley and Mattli, 72 f.
[149] Technical rules are black boxes in the sense that their making entails a myriad of individual, potentially hotly contested decisions that will no longer be visible in the final product. Similar to what Latour argues in the context of examining how scientific facts are built, building standards involves a long process of settling controversies. Standards are written as the result of a process of bargaining and compromise between the interested parties involved. They always remain arbitrary to an extent as they could have, under slightly different circumstances, just as easily settled on different conventions. Different conventions in accounting can lead to drastically different pictures of economic reality and drastically different political consequences. This is also why accounting, like quantification in general, "is a way of making decisions without seeming to decide". Theodore M. Porter, *Trust in Numbers: The Pursuit of Objectivity in Science and Public Life* (Princeton, United States: Princeton University Press, 1995), 8. See also: Bruno Latour, *Science in Action: How to Follow Scientists and Engineers through Society* (Milton Keynes: Open University Press, 1987); Eve Chiapello, "Critical Accounting Research and Neoliberalism," *Critical Perspectives on Accounting*, 25th Anniversary issue, 43 (March 1, 2017): 47–64; Bruce G. Carruthers and Wendy Nelson Espeland, "Accounting for Rationality: Double-Entry Bookkeeping and the Rhetoric of Economic Rationality," *American Journal of Sociology* 97, no. 1 (July 1991): 31–69.
[150] Walter Mattli and Anne-Marie Slaughter, "Revisiting the European Court of Justice," *International Organization* 52, no. 1 (ed 1998): 196.

joint conferences and seminars can further raise the profile of the standard setter, lend legitimacy, and create the impression of endorsement. The mechanics of this will be explained below as well as in Chapter 5. In conjunction with inviting public sector members to the board, this strategy also blurs the lines between public and private. Standard setters will act to blur the boundaries and seem less like a private organization and more like a neutral arbiter or international organization working disinterestedly for the public good. As a general rule, in everything it does, the standard setters' language will carefully stay clear of politics and be framed in terms of technical debates and disagreements.

One of the key points of this thesis is that private standards do not disseminate themselves in a functionalist or mechanistic way. Standards are not just, say, uploaded to a website for states to draw on. Just like any product, standards require supply chains. Similarly, the strategies of creating demand and making standards acceptable to states will also need to be communicated to the regulatory targets. Private regulators do this by building their own supply chains through tireless strategic networking. The following section argues that the most important thing private regulators do to reach their regulatory targets is to enlist others to do their bidding. Drawing on orchestration theory among others, it is argued that private actors gain leverage and influence over their targets by "orchestrating" powerful IGOs as well as other actors on national and subnational levels.

II.3 Building transnational supply chains

Somewhat akin to a supply chain for products, standards require diffusion mechanisms to get to their regulatory targets. In the case of private regulation of the public sector, a private actor without any formal powers of coercion will have to get its message and its standards, across to as many governments globally as possible. Rather than setting up a buffet of standards and waiting for states to serve themselves if there is demand, rule-makers need go out to lobby, convince, and, where possible, leverage powerful organizations to coerce. Drawing on existing theories, I posit that there are two main avenues that private regulators pursue in peddling their standards. First, one of the most impactful things private regulators can do to make states adopt their standards is to enlist IGOs in their diffusion. Drawing on orchestration theory, this thesis argues that far from being a one-way street where IGOs enlist private intermediaries, orchestration can serve as a tool for private actors themselves. The second section argues that, using similar strategies as on the international level, private actors seeking to regulate the public sector will build domestic networks around the world in order to lobby, persuade, and gain leverage over governments.

II.3.1 Orchestrating the orchestrators: leveraging IGOs

Private regulators will seek to enlist IGOs in spreading their standards. In doing so, they will try to gain three main benefits. First, and most importantly, enlisting IGOs can extend the reach of private standard setters and give them an indirect means to coerce states into adoption. In private regulation of the public sector in particular, organizations such as the World Bank and International Monetary Fund (IMF) that are involved in conditional lending and public management reforms, can offer a way to diffuse standards globally. Second, successfully enlisting the support of IGOs and having them use, refer to, or even endorse its standards, will confer credibility and legitimacy on the private regulator. As argued above, the pursuit of these resources is important in attempting to sell standards to states. Third, they may be able to extract material support such as additional funding. To underpin these arguments, it is instructive to briefly elaborate on orchestration theory in the following.

More than a decade ago, Abbott and Snidal diagnosed the emergence of "Transnational New Governance", the transition to a more decentralized system of governance populated by a myriad of soft law rules set by a variety of actors, the majority of which are private regulatory standard setters.[151] In this new status quo, states and IGOs will often take the role of orchestrators of private schemes. This, Abbott and Snidal argue, is normatively desirable given it will help realize the full potential of Transnational New Governance by remedying its main flaws: the scale of its schemes and its extreme fragmentation.[152] Orchestration, however, is not something IGOs do solely out of altruistic impulses. Built on the above insights, orchestration theory posits that where IGOs lack governance capacities, enlisting private actors as intermediaries[153] can help IGOs gain capacity in pursuit of their own governance objectives. In doing so, IGOs empower intermediaries by lending them financial support, connecting them to important actors, coordinating its activities, providing normative guidance, and conferring legitimacy by endorsing them. This last point is particularly relevant given the importance of

[151] Kenneth W Abbott and Duncan Snidal, "Strengthening International Regulation Through Transnational New Governance: Overcoming the Orchestration Deficit," *Vanderbilt Journal of Transnational Law* 42, no. 2 (2009): 501–78; Abbott and Snidal, "The Governance Triangle: Regulatory Standards Institutions and the Shadow of the State."
[152] This results in an "orchestration deficit". Abbott and Snidal, "Strengthening International Regulation Through Transnational New Governance: Overcoming the Orchestration Deficit," 577.
[153] And other actors. Intermediaries can also be governmental actors such as other IGOs. Abbott et al., "Orchestration: Global Governance through Intermediaries."

legitimacy and credibility for private rule-setters. The authors argue that supporting intermediaries will also enhance IGOs' ability to steer intermediaries by providing leverage over them.[154] Ultimately the relationship between orchestrator and intermediary is a symbiotic one: "each is unable to achieve its goals fully without the other".[155]

Since orchestration is beneficial to intermediaries, it is unsurprising that scholars employing orchestration theory have found that intermediaries will often seek out orchestration.[156] Studying the cases of ISO, the Codex Alimentarius Commission, and the so-called Friends of Fish initiative, Elsig shows that intermediaries will lobby and strategically network with IGOs in order to be orchestrated by them.[157] However, a finding from that study of even greater interest to this thesis is the observation that intermediaries may "try to instrumentalize the staff of the international organization as intermediary and become orchestrator if the organization lacks capacity".[158] This is relevant in at least two ways: First, it reminds us that IGOs are not monolithic. In fact, the ones that feature prominently in this thesis are sprawling organizations with countless departments and staff with significant discretion. Private regulators attempting to enlist IGOs for their purposes do not have to convince the entire organization – they can instead selectively and strategically target parts of them. Importantly, second, it demonstrates that power is not always concentrated with the governmental actor and suggests that orchestration can run both ways.

Looking more closely into the power dynamics of orchestrator-intermediary relationships, Mattli and Seddon have found that orchestration is an "irreducibly political phenomenon"[159] and that, surprisingly, it is often private rule-makers, rather than public orchestrators, who end up holding all the cards. This is because of what Mattli and Seddon call "power of the pen",[160] or elsewhere, "power of the penholder".[161] The power of the penholder has three sources. First, the uneven distribution of technical expertise between rule-supporting and rule-making party in an orchestrator-intermediary relationship leads to information asymmetries that favor the rule-maker. To this one can add that information asymmetries are aggravated where the

154 Abbott et al.
155 Abbott et al., 18.
156 Abbott et al., "Orchestrating Global Governance."
157 Elsig, "Orchestration on a Tight Leash."
158 Elsig, 86.
159 Walter Mattli and Jack Seddon, "Orchestration along the Pareto Frontier: Winners and Losers," in *International Organizations as Orchestrators*, ed. Kenneth W. Abbott et al., 1st ed. (Cambridge University Press, 2015), 315–48.
160 Mattli and Seddon.
161 Mattli and Seddon, "The Power of the Penholder: The Missing Politics in Global Regulatory Analysis."

orchestrator lacks capacity. Second, rule-makers are "in the driver's seat"[162] because of the constitutive nature of rulemaking. While orchestrators have the power of granting and withdrawing endorsement or other support, this confers less power than it would seem because it has a less direct impact on outcomes than continuous rule-making.[163] It should be added to this argument that, as said above, orchestrators are dependent on intermediaries to have access to certain governance capabilities they see as relevant – terminating the relationship would end that access. Additionally, the mentioned information asymmetries can make it difficult for the orchestrator to find out to what extent the rules are in its favor. Finally, third, Mattli and Seddon argue that once adopted, rules may be hard to change because of network effects.[164]

For these reasons, rule-makers are favored in orchestration. Even in neutral-seeming coordination games with a pareto outcome, rule-setters get to choose their preferred point on the pareto frontier, resulting in distributional consequences.[165] For the same reasons, orchestrators will prefer constellations where a number of suitable intermediaries exists because being able to shift – or threatening to shift – support from one intermediary to another puts orchestrators in a better bargaining position.[166] As Mattli and Seddon argue, the power of the intermediary vis-à-vis the orchestrator is further enhanced when the intermediary is singular or focal, meaning it is either the only or the clearly dominant standard setter in the respective field. This is because"a monopoly player can set a monopoly price".[167] Therefore, intermediary power is greatest when they fulfil a rule-making rather than rule-supporting function and when they are singular or focal in their field.

With this in mind, I argue that private regulators of the public sector will seek out IGOs to enlist them in their efforts to gain legitimacy and spread their standards. I argue they will be especially successful at this when they are focal or singular in their domain. Given the substantial influence they may hold in the relationship and the proactive nature of their dealings with IGOs, I argue that it is helpful to view these private regulators not simply as intermediaries, but also as orchestrators in their own right. Orchestration is a two-way street. Of course, for private

[162] Mattli and Seddon, "Orchestration along the Pareto Frontier," 322.
[163] Mattli and Seddon, "Orchestration along the Pareto Frontier."
[164] Mattli and Seddon.
[165] Mattli and Seddon. Mattli and Seddon mostly refer to scenarios that can be modelled as cooperation games. Private regulation of the public sector can be a coordination game, but is not necessarily one. For example, standards may simply promise to enhance the efficiency of the part of the public sector that adopts, without further gains from harmonization or impacts on other states. However, even in these circumstances, the points made above about power relations between intermediaries and orchestrators should still stand.
[166] Abbott et al., "Orchestration: Global Governance through Intermediaries."
[167] Mattli and Seddon, "Orchestration along the Pareto Frontier," 324.

orchestration of the orchestrators to work, standard setters will still need to be able to offer IGOs – or elements within them – something they desire. This will normally be increased governance capability through lending expertise and providing ready-made solutions to issues IGOs encounter in their activities. IGOs may also see benefit in utilizing an independently made standard that might come across as less political.

II.3.2. Orchestration at the domestic level

One further way to establish a supply chain for their standards is for private regulators to build networks at the national and subnational levels of target states. Most of this relies on the same principles as the above. Private regulators attempt to orchestrate other private actors at the domestic level in target states in order to launch a concerted lobbying effort towards the target government. The specific intermediaries that could be enlisted at this level depend on the type of standard the private regulator is peddling. Potential targets may include professional organizations, educational institutions, or national standard setters that can help pressure national governments. Domestic-level advocates can be an invaluable extension of a transnational private regulator’s network, given local actors are likely to possess relevant local knowledge including contacts to the target public sector, and given the standard setter’s resources to engage in outreach are likely constrained by lack of personnel and financial resources.

Beyond orchestration of local actors, private regulators will also engage in direct outreach to targets. While, as said, resources are likely limited, one strategy to do so is to include representatives of targets as observers or participants in the standard setting process. This way, the standard setter not just establishes important contacts but also offers targets transparency as well as avenues for feedback. As Martinez-Diaz has argued in the case of the IASB, standard setters may even strategically adjust their output to gain currency with powerful targets.[168]

These strategies on the domestic level should be more successful if private regulators can draw on, or tap into already existing networks, for example, where they are tied into a certain profession. Professions, as one example, are known to be excellent diffusion channels.[169] We will see in the case of the IPSASB that this is indeed true.

[168] Martinez-Diaz, “Strategic Experts and Improvising Regulators.”
[169] See, e.g., DiMaggio and Powell, “The Iron Cage Revisited”; Johan Christensen, *The Power of Economists within the State* (Stanford, California: Stanford University Press, 2017).

Conclusion

This chapter has argued that, despite increasing attention given to transnational private regulation, one important regulatory phenomenon in this realm has been almost entirely neglected. Private regulation of the public sector, where private actors set rules targeted at states and then push states to adopt them, is the missing piece in an increasingly complete scholarly puzzle. By introducing a typology of regulatory relationships between private and public actors, this chapter has identified and defined that missing piece. The rest of the chapter then established a general framework to understand the success of these types of regulatory schemes. By orchestrating IGOs as well as domestic actors, private rulers create supply chains for their work products that give them the regulatory reach needed for success. In their various sales pitches and orchestration efforts, private standard setters targeting states will operate protected by the mask and shield of technical-neutrality. Framing their standards as highly portable superior solutions to a whole host of problems independent of geographic or other context, and delegitimizing existing or competing standards and solutions, private rulers generate demand for their rules.

The next chapter will introduce the case used to test and further develop the proposed theoretical approach: the International Public Sector Accounting Standards Board. It will also give an overview of its institutional ecosystem and standards, as well as introduce several basic accounting concepts in order to familiarize the reader with some of the language used throughout this thesis. Beyond this, the chapter also offers a first look at some of the IPSASB's strategies. Especially in analyzing the history of the Board as well as its composition, it will already become clear the Board is undeniably a private actor, it takes care to blur the boundaries between public and private as much as possible – and to make sure credible public sector expertise is represented on the Board. The chapters to follow will then delve further into the case, applying the concepts presented here to understand the success of the Board as a private regulator of the state. Chapter 4 will trace both the debate around accruals and discuss the potentially major distributional consequences of the IPSASB's seemingly neutral standards. This will serve to illustrate what is at stake and why this standardization of government accounting and private regulation of the public sector matter and are worthy of our attention. Further, the account will illustrate the narratives of technical neutrality and universality and elucidate the arguments used by the Board to delegitimize existing standards. Lastly, the chapter will present and discuss data on the successful diffusion of the Board's standards. To further explain that diffusion and shed light on some of the observed patterns as well as mechanisms, the subsequent two chapters will explore the Board’s orchestration efforts at the international (Chapter 5) and domestic levels (Chapter 6).

CHAPTER 3: SETTING THE SCENE: A CASE OF PRIVATE REGULATION OF THE PUBLIC SECTOR

Accounting is boring. Accountants are dull people interested only in accurate figures. This – or a slightly less harsh version of this cliché – is what many people think of the subject and protagonists of this thesis. Accounting has a reputation as a technical, mechanical subject. But the introductory chapter has provided a glimpse of a story that is very much at odds with this reputation. Accountants are not simply calculators made of flesh and their standards are not bloodless, neutral rules. At its core, accounting is a set of conventions about how we measure and make visible economic reality that has implications for what we pay attention to, how we allocate budgets, and what we ignore. In that sense, accounting determines what we consider to be true regarding our economies and all the financial activities of our governments. While it may be a tool, it is a tool with profound distributional consequences, making it highly political.

Chapters 3 and 4 will go deeper into why that is by exploring the private rules at the heart of this thesis, the International Public Sector Accounting Standards (IPSASs), and those involved in setting and disseminating them. This chapter, Chapter 3, will provide the necessary background on the private actor that sets IPSASs, the content of its standards, and the organizations in its ecosystem. Along the way, it will already indicate major conflict lines and issues explored in other chapters. Chapter 4 will then delve into IPSASs' distributional consequences and begin exploring their unexpected diffusion around the world.

This chapter is organized in two parts with three sections each, and a conclusion. Part I will explore the organizations at the center of this thesis: the International Federation of Accountants (IFAC) as the global center for the accounting profession (I.1) and the International Public Sector Accounting Standards Board (IPSASB), the focal standard setter for government financial reporting standards and an independent subsidiary of IFAC (I.2). Both accounts will be rooted in an institutional history of the respective organization and focus on those parts most relevant to the analysis that follows in later chapters. For length, readability, and relevance, the history is therefore selective and centers around those organizations' foray into the public sector. IFAC's other standard setting efforts,[170] for example in auditing and assurance or professional ethics, will not be explored. Section I.3 concludes part one by offering a brief

[170] Which all regulate private actors.

overview of the IPSASB's institutional ecosystem, exploring in turn those organizations most relevant to the Board's history and standard setting. Part I therefore constitutes a sort of organizational *dramatis personae* of this thesis. Part II will then explore the content and character of IPSASs. To do so, it will elaborate on the Board's process for standard setting (II.1) before providing an introduction to the most relevant accounting concepts (II.2). Limited to only the most relevant concepts and written to avoid jargon, this section should equip the reader with a general understanding of those accounting issues that will necessarily pervade this thesis. Section II.3 will then give an overview of the 42 IPSASs themselves. This overview will give the reader a sense for some of the core components of IPSASs as well as – more importantly – an understanding of the private sector nature of the standards. IPSASs are, as all accounting standards, the result of a myriad of individual technical decisions. This part of the chapter will give the reader a better sense of the resulting specific flavor of accrual standard that IPSASs represent. The conclusion will recap and lead over to Chapter 4.

I. The Organization: IFAC, IPSASB, and their Ecosystem

Accounting is an ancient practice dating back thousands of years. In fact, accounting for basic market transactions with clay tokens as early as 9000 BCE predates the arrival of writing by about 5000 years. There is archaeological evidence that early writing systems themselves were developed for accounting purposes.[171] Over the millennia, accounting became a more formalized system – for example through the development of double-entry bookkeeping by Luca Pacioli in 15th century Venice.[172]

As an organized profession, however, accounting is considerably younger. Professional organizations such as the present-day Institute of Chartered Accountants in England and Wales and the American Institute of Certified Public Accountants have their origins in the late 19th Century.[173] The mid to late 1800s also saw the emergence of accounting services firms, some of which have developed into today's Big 4 accounting giants. London saw the foundation of firms by William Cooper in 1854 as well as by Edwin Waterhouse and Samuel Price in 1864. The United States had seen a similar rise in accountants and accountancy organizations.[174]

[171] Denise Schmandt-Besserat, *How Writing Came About*, 1st abridged ed (Austin: University of Texas Press, 1996).
[172] Büthe and Mattli, *The New Global Rulers: The Privatization of Regulation in the World Economy*.
[173] Rowan Jones and M. W. Pendlebury, *Public Sector Accounting*, 6th ed. (Harlow: Financial Times Prentice Hall, 2010).
[174] Büthe and Mattli, *The New Global Rulers: The Privatization of Regulation in the World Economy*.

The origins of international coordination of the various national professions lie in the 20th century. Like many other technical professions, accountants began holding world congresses to coordinate and discuss matters of harmonization. The first such meeting was held at the St. Louis World Fair in 1904 – which famously also laid the groundwork for the International Electrotechnical Commission which today is the dominant standard setter for electronic products.[175] This first meeting at the World Fair was organized by the Federation of Societies of Public Accountants, which was one of many competing US-based accountancy bodies – likely in order to raise its profile and that of the profession domestically.[176] However, from the second World Congress in 1926, it is safe to say the focus of these meetings was to foster international harmonization.[177] The following sections provide a brief history and overview of the organized accounting profession in the form of the International Federation of Accountants (I.1), as well as a history and overview of the standard setter at the center of this thesis, the International Public Sector Accounting Standards Board (I.2). A few words will also be said on the IPSASB's institutional ecosystem in section I.3.

I.1. The International Federation of Accountants (IFAC)

At the 11th World Congress of Accountants in Munich, October 7, 1977, the profession decided to give itself a more formal organization with the foundation of the International Federation of Accountants. IFAC joined the London-based International Accounting Standards Committee (IASC) which had been founded in 1973 to set internationally accepted (private sector) financial reporting standards.[178] The two organizations later agreed that IASC should be the sole setter of international (business) accounting standards while IFAC was designated the official representative of the global accountancy profession with authority to nominate members to the IASC Governing Board.[179] IFAC's founding members were 63 professional bodies from 51 different countries. Its mission is to:

> *"strengthen the global accountancy profession in the public interest by: Developing high-quality international standards in auditing and assurance, public sector accounting, ethics, and education for professional accountants and supporting their adoption and use; Facilitating collaboration and cooperation among its member*

[175] Murphy and Yates, *The International Organization for Standardization (ISO)*.
[176] J. M. Samuels, "The 1904 Congress of Accountants: National or International?," *Accounting Historians Journal* 12, no. 1 (March 1, 1985): 99–105.
[177] Samuels.
[178] Büthe and Mattli, *The New Global Rulers: The Privatization of Regulation in the World Economy*.
[179] Büthe and Mattli.

bodies; Collaborating and cooperating with other international organizations; and Serving as the international spokesperson for the accountancy profession".[180]

Today, IFAC has 180 members from 135 jurisdictions around the world,[181] having consistently added about 30 new members per decade.[182] As mentioned above, its members are not individual accountants, but national accounting associations. Like most other private voluntary standard setters, it is thus a meta-organization in the sense that its members are organizations rather than individuals.[183] In terms of individuals, through its member organizations IFAC represents close to 3 million accountants across all practice areas world-wide.[184] This shows the enormous reach of this professional organization.

Membership is not limited to one organization per country[185] and it is not uncommon to have more than one member body per country – especially in the Anglo-Saxon world where the profession is particularly strong. For example, five of the 63 founding members came from the UK.[186] To be admitted as a member, professional accountancy bodies need to fulfil a number of requirements, including, for example, be financially viable, have appropriate governance, support IFAC's mission, and be able to pay IFAC membership dues.

For IFAC's network reach and ability to diffuse its standards, two requirements matter in particular: first, organizations need to be able to regulate its members and, second, need to commit to compliance with a set of "Statements of Membership Obligations" (SMOs) that include championing the adoption and implementation of international standards and other pronouncements issued by IFAC's standard setting boards, including the IPSASB.[187] IFAC requires regular action plans and self-assessments regarding compliance with the SMOs it sets out.

For all SMOs, including the adoption and implementation of IPSASs, "IFAC recognizes that its member bodies operate under different national legal and regulatory frameworks [and] may

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[180] "Our Purpose," IFAC Website, accessed October 7, 2022.
[181] "Our Purpose."
[182] Membership numbers over the years: 1977 (63); 1987 (99); 1997 (126); 2007 (158); 2020 (180). See, IFAC, "IFAC: 30 Years of Progress," 2007.
[183] Nils Brunsson and Bengt Jacobsson, eds., *A World of Standards* (Oxford: Oxford University Press, 2002).
[184] Thomas Müller-Marqués Berger, *IPSAS Explained: A Summary of International Public Sector Accounting Standards*, 2nd ed. (Chichester, U.K.: Wiley, 2012).
[185] IFAC, "IFAC Membership Admission Criteria and Process," February 2016.
[186] "Our Purpose."
[187] International Federation of Accountants, "Statements of Membership Obligations (SMOs) 1-7 (Revised)," July 2022.

have different degrees of responsibility for meeting the requirements in this SMO".[188] For this purpose, compliance is guided by an "applicability framework", depending on whether members in a given jurisdiction have direct, shared, or no formal-legal responsibility over adopting or implementing a standard. In case a member has direct responsibility, it is compelled to implement the respective IFAC standard, for example IPSASs, and might face expulsion in case of noncompliance. Where responsibility rests (or is shared) with another organization, members are responsible to lobby for adoption and assist with implementation.[189] IFAC thus compels its members to act as extensions of its standard setting Boards wherever and to the extent possible, considerably extending its reach and capacity for lobbying.

Beyond its members, IFAC also cooperates and coordinates with those regional accounting bodies that it formally recognizes, as well as the Big 4 accounting firms, for the most part via the so-called "Forum of Firms". The Forum of Firms is an association of global accounting corporations and is among the main funders of IFAC, alongside dues from its member organizations. Chapter 6 will elaborate further on the Forum as well as the ways in which IFAC and IPSASB have worked to enlist big accounting firms resulting in a mutually beneficial relationship.

Just like its members, IFAC is a private organization. It is set up as a non-profit association registered in Geneva, Switzerland.[190] While its seat is officially in Geneva, its head offices have been in New York since its inception in 1977.[191] Internally, IFAC is governed by the Council and the IFAC Board. The Council is the parliament, so to speak, of the Federation and consists of one representative per member, each with one vote.[192] It ordinarily meets once a year, is chaired by IFAC's president, and represents the ultimate authority of IFAC deciding on admission of new members (upon recommendation of the IFAC Board), and approval of appointment of President and IFAC Board members (upon recommendation of the Nominating Committee "as endorsed by the Board").[193] From the constitution it can already be seen that the IFAC Board is granted the most *de facto* power and, in running the operations of IFAC, is the main shaper of IFAC policy. For example, beyond the various rights to recommend members mentioned above, and the responsibility to implement the strategy as approved by the Council, the IFAC Board has the power to endorse the terms of reference and the chairs, members, and

[188] International Federation of Accountants, 32.
[189] International Federation of Accountants, "Statements of Membership Obligations (SMOs) 1-7 (Revised)."
[190] IFAC, "Constitution of the International Federation of Accountants," February 2014.
[191] IFAC, "IFAC: 30 Years of Progress."
[192] Keep in mind, of course, that there is often more than one member per country.
[193] IFAC, "Constitution of the International Federation of Accountants."

observers of all standard-setting boards[194] as well as "take any action in the general interest of IFAC that is not expressly addressed in this Constitution or the Bylaws".[195] The IFAC Board itself is composed of twenty-two members plus the President who are elected by the Council to "reflect the level of Members' financial contribution to IFAC".[196] IFAC Board members are volunteers and are not compensated for their time, in line with many other voluntary private standard setting organizations. The CEO of IFAC is accountable to the IFAC Board which itself is chaired, like the Council, by the President.

Besides serving as a focal point for the profession globally, IFAC's core component are its independent standard-setting boards. Currently, there are four independent boards operating under the auspices of IFAC: the International Accounting Education Standards Board (IAESB), the International Ethics Standards Board for Accountants (IESBA), the International Auditing and Assurance Standards Board (IAASB), and the International Public Sector Accounting Standards Board. The former three boards are concerned with professional standards for accountants as well as self-regulation of audit and assurance practices. This thesis focuses on the fourth board, the IPSASB.

I.2. The International Public Sector Accounting Standards Board (IPSASB)

When talking to those familiar with the IPSASB (henceforth also simply "the Board"), most consider that its history began in the mid-1990s with the chairmanship of Ian Ball.[197] This is when the standards project was kicked off and likely the point in time when the Board's path to international dominance in government accounting standard setting began. However, it is instructive to briefly consider the pre-history of the standards project and even the Board itself. This is because, from the outset, IFAC considered whether and to what extent to get involved in the government sector; it began developing both a network of accountants involved in governments and established ties with important IGOs that would be deepened over time and greatly contribute to the success of the IPSASB today.

[194] IFAC, "Bylaws of the International Federation of Accountants," November 2017.
[195] IFAC, "Constitution of the International Federation of Accountants," 9.
[196] IFAC, 8. According to the Bylaws: "10 seats allocated to representatives from the twelve highest contributing Members in Good Standing ("Board Category A"); b. 6 seats allocated to representatives from the thirteenth to the twenty-fourth highest contributing Members in Good Standing ("Board Category B"). c. 6 seats allocated to representatives from Members in Good Standing not among the twenty-four highest contributing Members in Good Standing ("Board Category C"); and d. 1 seat for the President." IFAC, "Bylaws of the International Federation of Accountants," 12.
[197] Interview 8.

I.2.1 Beginnings: IFAC's Public Sector Committee

At least as soon as two years after its foundation in 1977, the IFAC Council discussed "whether IFAC should become involved in the activities of accountants in government, as there appeared to be a significant group of members of member bodies working in government".[198] While this may not have been at the top of IFAC's agenda, it was not only discussed continuously but concrete steps were taken towards assessing this possible extension of IFAC's business into the government sector. For example, a session on "What can the accounting profession do for government?"[199] was included in planning for the 1982 World Congress (organized by IFAC), and in 1980 the Council was presented with a paper on the "Role of the Accountant in Government" which it decided to have revised and sent to Council members "with a request that they contact appropriate parties in their own countries to determine what is going on in the area of governmental accounting and auditing, and what role, if any, IFAC could play in this area".[200]

While the Council took a deliberately cautious approach, the topic of government accounting kept being discussed.[201] In fact, in 1985 then-IFAC executive director Robert Sempier noted that "some portion of more than half the Council meetings to date"[202] had been devoted to considering IFAC's foray into public sector accounting. Concrete steps were also taken also to liaise with IGOs such as through "meetings with representative of the World Bank, and the International Finance Corporation and the OECD […] to explain the objectives and purpose of IFAC, outline the work program and approach, and see how IFAC can interface or work with these organizations".[203]

In these internal discussions and meetings with international organizations, it became clear that individuals within these organizations thought the time was "ripe" for initiating international harmonization of accounting in the public sector and were willing to support IFAC as the international focal point for public sector accounting. Minutes reported back from one meeting on July 29, 1985, with "interested parties" in Washington DC (including representatives of IFAC, the Auditor General of Canada, the current and former Comptrollers General of the US,

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198 IFAC Council. Minutes of meeting. May 1979: 7.
199 IFAC Council. Minutes of meeting. May 1980: 14.
200 IFAC Council. Minutes of meeting. November 1980: 10.
201 IFAC Council. Minutes of meeting. May 1981. IFAC Council. Minutes of meeting. November 1981. IFAC Council. Minutes of meeting. May 1982.
202 IFAC Executive Committee. Minutes of meeting. February 1985: 4.
203 IFAC Council. Minutes of meeting. November 1980: 11.

the President of the International Consortium on Governmental Financial Management, and a Financial Adviser with the World Bank) underline this and already include the idea of public sector accounting standards, set by IFAC, and based on existing private sector standards:

> "- *There was general agreement that there is a need to develop accounting and auditing standards for the public sector particularly since the public sector accounts for more than 50% of the GNP in many countries of the world. It was further agreed that the more pressing need is the development of international accounting standards for the public sector.*
>
> - *Maurice Mould [Financial Adviser, World Bank] expressed the view that IFAC, as the organization representing the accounting profession worldwide, should be the catalyst for advancing international accounting and auditing standards for the public sector.*
>
> - *There was general agreement that any initiatives undertaken to develop accounting and auditing standards for the public sector should avoid "reinventing the wheel". It was felt that the work already done by the private sector in developing accounting and auditing standards should serve as a starting point. In this regard it was suggested that an appropriate IFAC group should be formed to review the existing international pronouncements to determine the extent to which they might be applicable to the public sector.*"[204]

As a result of these ongoing discussions and efforts, the IFAC Board's Planning Committee recommended the formation of a new IFAC committee to deal with public sector issues, to which the Council agreed in 1986,[205] forming the IFAC Public Sector Committee (PSC)[206] – which later, in 2004, changed its name to IPSASB. At the PSC's first ever meeting,[207] the inaugural Chairman Kenneth Dye – Auditor General of Canada – noted that Australia, Canada, Indonesia, the Netherlands, United Kingdom, and US had been invited to be members and that World Bank and IASC had signaled their willingness to support the new committee.[208]

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[204] IFAC Executive Committee. Minutes of meeting. January 1986: 11f.

[205] IFAC Executive Committee. Minutes of meeting. January 1986. IFAC Council. Minutes of meeting. November 1985. IFAC Council. Minutes of meeting. May 1986.

[206] In the context of this this chapter "PSC" or "the Committee" will be used to speak about the time before the name change to "IPSASB". However, to avoid confusion, for the remainder of this thesis "IPSASB" or "the Board" will be used by default even when referring to a time before the name change occurred.

[207] Attended by Representatives from Australia, Canada, Indonesia, Netherlands, UK, US, World Bank, IASC, and IFAC.

[208] Public Sector Committee. Minutes of meeting. January 1987.

In the early days, the PSC's activities remained focused on charting the government accounting landscape, establishing a network of accountants in government, as well as publishing guidelines rather than standards.[209] From the very first meeting, the PSC had a particular awareness around the sensitivity of sovereignty and private sector involvement in government accounting. The Committee's deliberate strategy in its pronouncements is to "recognize the sovereignty of government; downplay the "authority" of the PSC and IFAC; and avoid presenting the Committee as a lobbying organization".[210] Its first International Public Sector Guideline was issued in 1989.[211] More shall be said on these early network-building efforts and strategies in Chapters 6 and 7.

In the mid-1990s the PSC's "gestation phase" ended as it decided to transition from issuing guidelines to setting standard.[212] The PSC's second Chairman, Roelof Voormeulen from the Dutch Ministry of Finance, described this first phase of the PSC's development as one focused on gaining international recognition and preparing the ground for moving into developing a more comprehensive set of standards.[213] After the decision to move towards standards was made in late 1994, Voormeulen (who was retiring[214]) was replaced by New Zealander Ian Ball in May 1995, the first full-time, renumerated chairman. Table 3.1 provides an overview of all IPSASB chairmen to date.

I.2.2. Rise: The standards project and becoming the IPSASB

In New Zealand, Ian Ball had previously been recruited by the Treasury after ten years in academia to help improve financial management.[215] At the time, New Zealand's financial position was not good, with high and increasing debt.[216] New Zealand bureaucrats were travelling to the US looking for financial management inspiration and returned with New Public Management ideas.[217] Within New Zealand, Ball was already a proponent of using business-style accrual accounting across government. In a push mainly from within the bureaucracy, accountants managed to convince the government to move towards full accrual accounting in

[209] Public Sector Committee. Minutes of meeting. January 1987. Public Sector Committee. Minutes of meeting. January 1987.
[210] Public Sector Committee. Minutes of meeting. January 1987: 5.
[211] IFAC Council. Minutes of meeting. May 1989.
[212] Public Sector Committee. Minutes of meeting. November 1994.
[213] IFAC Council. Minutes of meeting. May 1995.
[214] He retired from his post at the Dutch MoF and would therefore lose his funding as chairs were then still voluntary. IFAC Executive Committee. Minutes of meeting. August 1993.
[215] Interview 4.
[216] Interview 23.
[217] Interview 23. Alan Robb and Susan Newberry, "Globalization: Governmental Accounting and International Financial Reporting Standards," *Socio-Economic Review* 5, no. 4 (October 1, 2007): 725–54.

the early nineties.[218] After wide-ranging financial management reforms, including introduction of accrual accounting, New Zealand's financial position improved noticeably. Independent of how much of this really is due to a different financial reporting technique, the New Zealand case is presented as a major success story of accrual accounting to this day.[219]

Ian Ball, the author of much of the New Zealand reforms, is credited by most in the IPSASB community with taking accrual accounting international. He is described by one interviewee as "the main brains behind it"[220] and a previous PSC Chairman credits him with putting the PSC onto the map when, at the time, the "PSC was not on IFAC's agenda at all".[221] For Ian Ball himself, one of the initial motivations to take the New Zealand reforms international was to solidify the domestic reforms themselves: by turning New Zealand-style accrual accounting into best practice globally, he could increase the likelihood that reforms would stay in place domestically rather than be rolled back be a subsequent government.[222] The New Zealand success story helped lend credibility to the idea and sell it at the international stage.[223] This demonstrates that would-be private regulators draw on success stories to sell their standards and will claim that their solutions are universally applicable independent of geographical or problem context. The choice of IFAC's PSC as the forum was because the New Zealand Treasury had leverage with neither IGO engaged in public accounting pronouncements at the time: the International Monetary Fund (IMF) and the International Organization of Supreme Audit Institutions (INTOSAI). Further, neither organization was setting accrual accounting standards at the time. IFAC, on the other hand, was an easier access point both as a private organization and as one in which New Zealand's professional association was a member and could facilitate the initiative.[224] As the above shows, this initiative lined up well with what the PSC had developed into over the years since its founding. Ian Ball was also successful in attracting further initial funding from the World Bank's special grants facility.[225] This got the standards project underway.

[218] Interview 4. Interview 23.
[219] For example, in a presentation by former IPSASB Chairman Ian Ball given to public sector representatives, see: Ian Ball, "IPSAS at 20: Origins and Challenges or A Walk Down Memory Lane..." (Public Sector Forum, Winterthur, July 3, 2017).
[220] Interview 8. Interview 12.
[221] Interview 2.
[222] Interview 4. Interview 12. Interview 23.
[223] Interview 3.
[224] Interview 4.
[225] IFAC, "Initial Proposal to the World Bank Special Grants Committee on Project Funding," September 18, 1995.

In line with some of what has been discussed above, the idea to “not reinvent the wheel” was persistent and after initial debates around which accounting basis to use[226] and settling on accrual,[227] the Board made the first phase of the standards project about producing a full suite of standards as soon as possible, by drawing on existing private sector standards. While the PSC was developing and its standards project being constructed, the London-based International Accounting Standards Committee had already gained significant traction in private sector accounting. Beginning its standards project in 1996 and adapting the IASC’s International Financial Reporting Standards (IFRSs) to the public sector environment with only minor changes, the PSC had produced its core set of twenty standards by 2002.[228] After a transitional period focusing on achieving full convergence with IFRSs while beginning to consider public sector specific issues, in 2009, the Board moved to its final and current working period in which the focus lies solely on issues specific to the public sector (while monitoring IFRS and readjusting for convergence if necessary).[229] More will be said on the standard setting process as well as the contents of the standards in the following section.

Name	Time in Office	Primary occupation/organization	Country
Kenneth Dye	1986 - 1991	Auditor General of Canada	Canada
Roelof Voormeulen	1991 - 1995	Dutch Ministry of Finance	Netherlands
Ian Ball	1995 - 2000	PSC/IPSASB Chairman	New Zealand
Ian Mackintosh	2000 - 2003	IPSASB Chairman	Australia
Philippe Adhémar	2004 - 2006	IPSASB Chairman	France
Mike Hathorne	2007 - 2009	IPSASB Chairman	UK
Andreas Bergmann	2010 - 2015	IPSASB Chairman	Switzerland
Ian Carruthers	2016 - present	IPSASB Chairman	UK

Table 3.1*: PSC/IPSASB Chairmen. (Source: IPSASB Minutes)*

[226] Public Sector Committee. Minutes of meeting. October 1997.
[227] Public Sector Committee. Minutes of meeting. May 1999.
[228] Müller-Marqués Berger, *IPSAS Explained [Electronic Resource]*.
[229] Müller-Marqués Berger.

Since its early days, the Board has gone through two major reviews that led to changes in its setup and governance structure. The first is an externally chaired review that was launched in 2003 when the PSC was excluded from IFAC reforms taking place at the time.[230] Chaired by Head of Accounting at the UK Treasury, Sir Andrew Likierman, the external review was tabled in 2004 and made several suggestions as to the PSC's future direction and oversight.[231] One of the most notable changes stemming from the Likierman Review is the name change from PSC to International Public Sector Accounting Standards Board. The recommendation to bring IPSASB under the oversight of the Public Interest Oversight Board which oversees all other IFAC Boards was supported by the IPSASB[232] but ultimately failed. IPSASB-specific oversight was then established in 2015 as a result of another major review led by IGOs including the IMF, World Bank, and OECD.[233] This Governance review can be seen as a successful attempt to gain legitimacy through relatively toothless oversight.[234] Ever since, the IPSASB's standard setting process was overseen by its own Public Interest Committee (PIC) composed of members from IGOs acting ex officio.[235] The Board's changing governance arrangements will be discussed in greater detail in Chapter 5 as a facet of the Board's successful international network-building. Additionally, in early 2016 a Consultative Advisory Group (CAG) was established. These most recent changes led to the current institutional structure.

I.2.3 The Board today

Together, the PIC and the CAG advise and oversee the IPSASB's operations. The Public Interest Committee is supposed to provide a public interest perspective and give recommendations on the IPSASB's standard setting process, appointment procedures, and work plan. The CAG advises on IPSASB's strategy and key technical questions around its standard setting activities. Its meetings usually coincide with the IPSASB's, and its twenty-two members come from international and regional organizations like INTOSAI, the Asian Development Bank (ADB), the European Commission and Parliament, as well as national and international accountancy bodies, and the governments of several countries. It is chaired by Thomas Müller-Marqués Berger, a partner at accountancy firm Ernst & Young. These two bodies, the PIC and

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[230] Public Sector Committee. Minutes of meeting. November 2002. Public Sector Committee. Minutes of meeting. July 2003.
[231] Likierman Review Panel, "Report of the Externally Chaired Review Panel on the Governance, Role and Organisation of the International Federation of Accountants Public Sector Committee," 2004.
[232] Public Sector Committee. Minutes of meeting. July 2004.
[233] International Public Sector Accounting Standards Board. Minutes of meeting. June 2015.
[234] Interview 12. International Public Sector Accounting Standards Board. Minutes of meeting. June 2014.
[235] Public Interest Committee, "Terms of Reference: International Public Sector Accounting Standards Board (IPSASB) Public Interest Committee," 2015.

the CAG, are supposed to strengthen the IPSASB's governance and legitimacy as mentioned above – both only act in an advisory capacity, however, and have no formal power to veto or change the Board's decisions.[236]

As mentioned above, since its inception, the IPSASB has been under the umbrella of IFAC. Even though the IPSASB and the other boards are styled as "independent", IFAC still plays a big role in financing, selection of members, and promotion of the IPSASB's output. Looking at recent reports, IFAC currently provides the Board with 88% of its total funding, amounting to just over $4m in 2019 and around $3.4m in 2020.[237] The Board is entirely funded through voluntary contributions by funding. Besides IFAC as the major funder, the IPSASB regularly receives financial and in-kind support from organizations such as the ADB, the Chartered Professional Accountants of Canada, the Governments of Canada, New Zealand, and Switzerland, the New Zealand External Reporting Board, and the Public Sector Accounting Board of Canada. The total external funding received per year is around $500,000. Especially in the past, as mentioned above, the Board has also drawn on grants from the World Bank and IMF. As IFAC receives significant funding from the Big Four via the Forum of Firms, the IPSASB is indirectly funded by them as well. Additionally, many (non-remunerated) advisors and Board members lending their expertise to IPSASB projects have come from Big Four accounting firms. In general, much of the support to the Board is non-financial such as lending staff and other services in kind – including the IPSASB's members who are not renumerated. In total therefore, the Board is by no means an organization with excess resources and, in fact, staffing shortages and low funding have been bemoaned throughout the Board's history.[238]

Unlike IFAC, its standard setting boards including the IPSASB are composed of individual members rather than organizations. Members are supposed to act as individual experts rather than representatives of their organizations or countries, as is customary in voluntary private standard setting. The IPSASB is composed of eighteen members from a number of private and public sector backgrounds. Members either hold or have held a public sector position before or have significant consulting experience in the public sector context. As members are not remunerated for their time, most employers of Board members see at least some benefit in allowing their employees to sacrifice some time to Board work.[239] IPSASB's eighteen members

[236] Public Interest Committee.
[237] IPSASB, "Delivering Through Challenging Times: 2019-2020 Biennial Review," July 2021.
[238] See, International Public Sector Accounting Standards Board. Minutes of meeting. December 2009. and IPSASB, "Sustaining the Momentum: 2015-2016 Biennial Review" (IFAC, 2017).
[239] Interview 3.

are joined by a full-time remunerated chair who leads the meetings, manages staff together with the technical director, and spends much time promoting IPSASs around the world. The Board members themselves are appointed by the IFAC Board upon recommendation from the IFAC Nominating Committee. Apart from the chair, members are not remunerated and work on a voluntary basis. Each member usually has a non-voting technical adviser.

Besides its voting members and chair, the Board also employs eleven full-time professional staff, including a technical director.[240] As the Board is based in IFAC's Toronto office, many of the staff members are Canadian accountants. Since the Board only meets four times a year and the time of members is limited (although they do spend some time on board work between meetings) the professional staff play an important role in actioning the Board's decisions, including drafting and revising standards. While Board members, especially in the later stages, spend significant time during meetings discussing and revising wording of standards, much of the more substantial writing and revision is outsourced to full-time staff. As such, staff members play an important role in the production of standards.

Aside from Board members, their technical advisers, and Board staff, the IPSASB's meetings are attended by observers from several organizations. These include the ADB, the European Commission, Eurostat, the IASB, the IMF, INTOSAI, the Organization for Economic Cooperation and Development (OECD), the United Nations (UN), the World Bank, as well as a few interested members of the public who can apply to observe everything but the closed sessions.[241]

Table 3.2 presents an overview of the current[242] Board members and advisors, stating for each their country, as well as their current employer. Of the Board's eighteen members, eight are currently employed in the public sectors of their respective countries. With one exception, the civil servants on the Board tend to be employed at central government level in institutions such as Auditor Generals' offices, the Ministry of Finance, or Supreme Audit Institutions. Of the remaining members, excluding the chair who is employed by the Board, four are currently in senior positions at Big Four accounting firms with the remainder being academics (3) or retired civil servants (2). The balance between clearly public sector and private sector roles is similar for the Technical Advisors. Of the currently fifteen Technical Advisors, seven are in public sector roles, three work for accounting firms, and a further two for accounting professional

240 "IPSASB Staff," IFAC Website, accessed October 7, 2022.
241 Müller-Marqués Berger, *IPSAS Explained*.
242 As of September 2022.

organizations. In some jurisdictions, like France, it is tradition for the Technical Advisor to always be from the private sector representing the profession, while the Board member is traditionally from the public sector.[243]

This overview shows that the majority of the Board's members are currently employed in the public sector. This is also not surprising given the fact that public sector expertise is needed to credibly set standards for the public sector and that public sector representation is all the more important for the Board's legitimacy given it is a private organization under the umbrella of the accounting profession. However, the number of public sector representatives should not be taken to mean that the Board is a quasi-public sector organization, for a number of reasons. First, while members certainly bring (and are to an extent expected to bring) their own national perspectives to the Board, they are not there as official representatives of their countries but as independent experts. The Board is not intergovernmental in any sense. Second, it is important to remember the dominance of especially Big Four accounting firms in professional training. Looking at individual members' career trajectories, most have either had a stint at a Big Four firm for training early in their careers or, in many cases, have had long careers at those firms before joining the public sector or academia.[244] Similarly, it is also not uncommon for Board members to later transition into or back into the public sector practice of a Big Four accounting firm.[245] Third, it is important to highlight the number of current Big Four partners involved on the Board and its advisory bodies. As one former IPSASB chairman remarked, their (unpaid) participation on the Board as a member or Technical Advisor is not simply a selfless act of professional service. Besides the career-boosting potential of raising one's profile, their organizations know that their participation will be useful to their business. As one interviewee explained, he was building the private sector practice at an accounting firm and they were "getting a slice of what I was doing".[246] Another interviewee, a former IGO observer on the Board, put it rather more bluntly, asking "who rolls out IPSASs? It is [the Big Four partners] who sit here on the Board – PwC, KPMG, EY", concluding that "ultimately, this is a lobby organization for the accounting profession and not an international organization".[247] Therefore, fourth and finally, it is important to remember the fact that IPSASB is under the umbrella of the accounting profession and relies on its resources and network. While the Board's work may

[243] Interview 18.
[244] For example, the Board member for the UK and South Africa were both at PwC, the former as a partner, the latter as a trainee.

[246] Interview 3.
[247] Interview 25.

be a service to public sectors worldwide (depending on one’s viewpoint), there are at the very least clear positive externalities for the Big Four and the profession in general.

One final take-away from the overview of members is that, despite making headway in assuring representation of a variety of developing and non-Anglo-Saxon countries, there still is somewhat of an imbalance towards anglophone countries. This is of interest for at least two reasons: firstly, those countries tend to have stronger accounting professions as well as experience with accrual accounting. Their dominance is both what likely determined many technical choices made in setting IPSASs and what gives them an edge in some accruals-related discussions where other countries have little to no first-hand experience. Secondly, and importantly, as will be seen in Chapter 4, of the countries currently applying IPSASs directly and without modification, none are represented on the Board. The Anglo-Saxon bias is somewhat more pronounced when factoring in IPSASB permanent staff members.

Before providing an overview of the IPSASB’s standards and process in part II, the following section will situate the IPSASB in its institutional ecosystem by pointing out the organizations that are relevant to the Board’s history as well as diffusion and setting of standards.

Name	Main Occupation	Country
Ian Carruthers (Chair)	Chairman, IPSASB	United Kingdom
David Watkins	*Consultant, retired civil servant*	*United Kingdom*
Lindy Bodewig (Deputy Chair)	Chief Director, Technical Support Services, Office of the Accountant-General, Treasury	South Africa
Andrew van der Burgh	*Academic, University of Pretoria*	*South Africa*
Abdullah Al-Mehthil	Assistant Undersecretary, Ministry of Finance	Saudi Arabia
Todd Beardsworth	Assistant Auditor General	New Zealand
Anthony Hefferman	*Director for accounting standards, External Reporting Board*	*New Zealand*
Claudia Beier	Head of Accounting, Canton of Zurich	Switzerland
Marc Wermuth	*Swiss Federal Finance Administration*	*Switzerland*
Luzvi Chatto	Retired civil servant	Philippines
Maik Esser-Mueller	Team Leader, German Supreme Audit Institution	Germany
Timm Klare	*Audit Manager, German Supreme Audit Institution*	*Germany*
Neema Klure-Mssusa	Assurance Partner, EY Tanzania	Tanzania
Williard Kalulu	*Chief Accountant, Ministry of Finance*	*Tanzania*
Mari Kobayashi	Acedemic, Waseda University	Japan
Takeo Fukiya	*Researcher, Japanese Institute of Certified Public Accountants*	*Japan*
Herve-Adrien Metzger	Senior Judge, French Court of Auditors	France
Griton Baudouin	*Audit Partner, KPMG France*	*France*
Nicosia Kamira Sanchez	Senior Manager, EY Germany	Panama
Fabrizio Mocavini	*Head of Unit, State General Accounting Department, Ministry of Economy and Finance*	*Italy*
Christopher Nyong	Federal Accounts Allocation Committee	Nigeria
Iheanyi Anyahara	*Directorate of Public Accounting Standards*	*Nigeria*
Lynn Pamment	Comptroller & Auditor General, Government of Jersey	United Kingdom
Henning Diederichs	*Technical Manager, Institute of Chartered Accountants in England and Wales*	*United Kingdom*
Renee Prichard	Advisory Partner, Deloitte Canada	Canada
Sayja Barton	*Director of National Accounting Standards, BDO Canada*	*Canada*
Ajith Ratnayake	Retired civil servant	Sri Lanka
Giuseppe Grossi	*Academic, Nord University*	*Sweden*
Scott Schowalter	Professor of Practice, North Carolina State University	United States
Patricia Siqueira	Academic, University of Sao Paolo	Brazil
Ayres Moura	*Partner, EY Brazil*	*Brazil*
Liang Yang	Technical Partner, Deloitte China	China
Jie Zhao	*Deputy Director, Accounting Regulatory Department, Ministry of finance*	*China*

***Table 3.2**: IPSASB Board Members and their Technical Advisors (italicized).*

I.3. The Institutional Ecosystem

IFAC and IPSASB are part of a wider ecosystem of private and intergovernmental organizations relevant to accounting and auditing, with which they have varying degrees of relations. Some of these have impacted the IPSASB's standards (IASB), were relevant to their diffusion (IMF, World Bank), or were important to demarcate the boundaries of IPSASB's mandate (INTOSAI). In the following, a few words shall be said on each of the most relevant organizations that will reappear throughout this thesis.

I.3.1 The International Accounting Standards Board (IASB)

The IASB – formerly International Accounting Standards Committee (IASC) – is a well-known subject for the literature on TPR and standard-setting.[248] With roots in a British-Canadian-American cross-border accountants' study group the IASB was founded (as the IASC) in 1973 and spent its first decade setting a suite of 26 accounting standards for private sector financial reporting.[249] Having gone through a series of governance transformations in the 1990s, the IASB has since become the dominant standard setter in its field: Büthe and Mattli argue that it is today the focal standard setter in accounting, meaning a body "that, for its area of expertise, is viewed by both public and private actors as the obvious forum for global regulation".[250] The International Financial Reporting Standards set by the IASB have experienced a wide-spread diffusion and adoption probably unparalleled in the world of voluntary private standard setting. So much so that for many firms today, IFRS compliance is no longer a choice. Endorsement by international organizations and incorporation into law by many nation states has made the IASB's standards compulsory. Most prominently, in 2002, the EU mandated that all companies listed there would have to comply with IFRSs by 2005 – a major success for the IASB and one of the main reasons for why it became the dominant standard setter it is today.[251]

The IASB lies, as mentioned above, outside the umbrella of IFAC. However, both organizations recognize each other as the authority in business financial reporting standards and supreme representative of the accounting profession respectively.[252] For the PSC and later IPSASB, the

[248] See e.g., Büthe and Mattli, *The New Global Rulers: The Privatization of Regulation in the World Economy*; Martinez-Diaz, "Strategic Experts and Improvising Regulators."
[249] Kees Camfferman and Stephen A. Zeff, *Financial Reporting and Global Capital Markets: A History of the International Accounting Standards Committee, 1973-2000* (Oxford ; New York: Oxford University Press, 2007); Kees Camfferman and Stephen A. Zeff, *Aiming for Global Accounting Standards: The International Accounting Standards Board, 2001-2011*, First Edition. (Oxford: Oxford University Press, 2015).
[250] Büthe and Mattli, *The New Global Rulers: The Privatization of Regulation in the World Economy*, 5.
[251] Büthe and Mattli, *The New Global Rulers: The Privatization of Regulation in the World Economy*.
[252] Büthe and Mattli; Müller-Marqués Berger, *IPSAS Explained*.

IASB became the natural reference point that enabled them to produce output quickly by copying existing private sector standards. By not "reinventing the wheel",[253] the IPSASB was able to develop a high-quality and proven product to sell much earlier than would otherwise have been possible – a crucial step in raising to focality and securing first-mover advantages over other potential standard setters in the field, including governmental organizations like INTOSAI.

I.3.2 The International Organization of Supreme Audit Institutions (INTOSAI)

INTOSAI is an association of national and supranational Supreme Audit Institutions – the highest instance of public auditing in each jurisdiction. Founded in 1953, it holds regular meetings and congresses to exchange best practices, build capacity, and set professional standards for government auditing.[254]

As a major organization bringing together auditors general of essentially all countries in the world, INTOSAI was on the PSC's and IFAC's radar since its very inception. Coordination with INTOSAI was seen as important, especially since it was unclear to what extent INTOSAI's and the PSC's missions might overlap, with the PSC initially also aiming to do work in the realm of government auditing.[255] Similarly, INTOSAI was at the time also working on accounting standards and therefore represented a potentially powerful governmental competitor for focality.[256]

Hence, unsurprisingly, staking the boundaries to INTOSAI was a recurring theme in early Board discussions with members pointing to the "perceived dominance of INTOSAI in many regions".[257] There is also indication that there was a certain "apprehension"[258] from INTOSAI members regarding the creation of the PSC. At the IFAC Council, concerns were expressed that the PSC needed to be careful not to become "a reiteration of INTOSAI"[259] as well as "to make sure that INTOSAI does not take control of the PSC agenda".[260] Around the same time, the

[253] IFAC Executive Committee. Minutes of meeting. January 1986.
[254] "Home - INTOSAI," INTOSAI Website, accessed October 7, 2022.
[255] IFAC Executive Committee. Minutes of meeting. January 1986. IFAC Executive Committee. Minutes of meeting. February 1986.
[256] IFAC Council. Minutes of meeting. November 1993.
[257] Public Sector Committee. Minutes of meeting. April 1993: 8.
[258] Public Sector Committee. Minutes of meeting. April 1987: 8.
[259] IFAC Council. Minutes of meeting. May 1993: 6.
[260] IFAC Council. Minutes of meeting. November 1994: 14f.

World Bank also showed itself concerned at the potential future conflict "if there were two sets of standards".[261]

This looming conflict was resolved once INTOSAI – which at this time held an observer position on the PSC – confirmed that "it was not in the business of setting accounting standards".[262] The PSC, similarly, withdrew from the areas of assurance and auditing, leaving these fields entirely to INTOSAI and the IFAC's own IAASB.[263] The reasons for this relatively peaceful resolution are at least two-fold: first, the two organization's missions differed from the beginning with INTOSAI having a more natural focus on auditing and the PSC becoming ever more focused on accrual accounting promotion, and second, due to INTOSAI's governmental nature and the political implications, they were not in a position to quickly set authoritative government accounting standards.[264] The latter point underlines one of the known advantages of private standard-setting: flexibility and pace – both helped the PSC to gain status as predominant standard setter relatively quickly.

I.3.3 The IMF and World Bank

As the preeminent governmental institutions for global economic governance, World Bank and IMF can act as gatekeepers for most anything that goes on in that realm. Both organizations are involved in maintaining best practices and global macroeconomic standards, as well as in spreading those practices via country level projects or conditional grant facilities. For the IPSASB's rise, both organizations were important as grant-givers and core nodes in its diffusion network.

As seen above, the World Bank was involved from the foundation of IFAC, already before the standards project. World Bank support, including funding from a special grants facility, was also instrumental in kicking off the standards project in the mid-1990s. In 1997, the PSC received its first installment of $200,000 from the World Bank with two more to follow, while the IMF agreed to contribute $50,000. Other multilateral development banks, especially the Asian Development Bank, were also continuous supporters of the Board.[265]

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[261] Public Sector Committee. Minutes of meeting. May 1995: 9.
[262] Public Sector Committee. Minutes of meeting. November 2000: 34f.
[263] Public Sector Committee. Minutes of meeting. April 2003.
[264] Public Sector Committee. Minutes of meeting. May 1995.
[265] Public Sector Committee. Minutes of meeting. May 1997. IFAC, "Initial Proposal to the World Bank Special Grants Committee on Project Funding."

The United Nations also maintained an Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR) established in 1982 by the UN Economic and Social Council. Their focus, however, is mostly on corporate governance and reporting. Throughout the almost three decades of the IPSASB's existence, there has been very little interaction between these institutions. For the IPSASB, it made more strategic sense to focus its networking efforts on World Bank and IMF, given their lending and grant giving activities, as well as technical assistance projects around the world. As such, they were the most natural intermediaries to aim to enlist among all IGOs.

1.3.4 National Standard Setters (NSSs)

A group of institutions at the national level that are important in both standard setting and the IPSASB network are what may be called National Standard Setters (NSSs). NSSs are those domestic institutions that have the formal-legal authority to set public sector (and other) accounting standards for the national level. These standard setters are often set up as semi-independent boards within the Treasury function. Two prominent examples of such NSSs are New Zealand's External Reporting Board (XRB) and South Africa's Accounting Standards Board (ASB).[266] Not all countries, however, operate NSSs, which tend to be more common in Anglo-Saxon accounting traditions.

NSSs are important points of contact for the IPSASB because they will often also be part of the national endorsement mechanism for international standards, as is the case in New Zealand (XRB).[267] Furthermore, NSSs will often seek to influence standard setting at the international level and represent a valuable source of expertise. Throughout its history, IPSASB has often outsourced studies or parts of projects to NSS willing to lend their expertise – New Zealand's XRB being particularly active on this front.[268] These institutions will reappear in Chapter 6.

II. The Standards: Overview of IPSAS

The second part of this chapter gives an overview of the standard setting process, as well as the work product of the IPSASB – the IPSASs. Because most readers will not be familiar with accounting, and because it is inevitable that a few accounting concepts will be drawn on in the chapters to follow, the discussion of the IPSASs will include a general introduction to relevant

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[266] "Overview – ASB," ASB Website, accessed October 7, 2022.
[267] "PBE Standards Based on IPSASB Pronouncements," XRB Website, accessed October 7, 2022.
[268] See, e.g., International Public Sector Accounting Standards Board. Minutes of meeting. March 2015.

basic accounting concepts. In general, as throughout the thesis, however, an attempt was made to keep accounting jargon to an absolute minimum and to avoid diving too deep into the intricacies of individual concepts or standards. The following discussion therefore avoids summarizing each IPSAS in detail and gives more space to a general introduction. The first section (II.1) very briefly sketches the IPSASB's standard setting process before the second section (II.2) introduces key accounting concepts. The third and final section (II.3) gives a brief overview of the IPSASB's suite of standards, including a brief discussion of the specific flavor they represent. Chapter 4 will pick up on a number of those points and significantly deepen their discussion in order to demonstrate the distributional implications of adopting standards like IPSASs.

II.1. Standard setting process

The IPSASB's work process (*Figure 3.1)* is quite similar to other voluntary private standard setters. Per its procedural rules, the Board identifies and prioritizes its work plan with advice from the Consultative Advisory Group (CAG) as well as occasionally a public consultation.[269] The respective consultation paper is published on the IPSASB website and generally open for comment by anyone who is interested, for a period of four months. Taking into account the results of the public consultation, IPSASB's permanent staff then prepare project briefs – including objectives, process, resources needed, and timetable – to be presented at the next Board meeting. After its approval with or without changes, the project moves into the development stage where, depending on necessity, a Task Based Group typically consisting of Board members, technical advisors, or observers is established to advise staff in the drafting of the Proposed Draft International Standard (PDIS). Depending on whether the Board thinks that

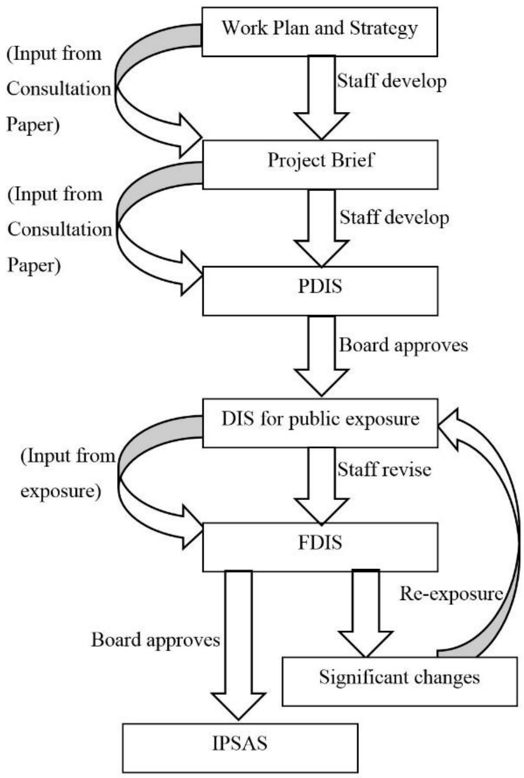

Figure 3.1: *IPSASB standard setting process.*

[269] IPSASB, "Due Process and Working Procedures" (IFAC, 2016).

there is a “likely or actual existence of a significant and controversial divergence of stakeholder views”,[270] a consultation paper for public consultation may be issued. Taking everything into account, the IPSASB then votes to approve a Draft International Standard (DIS) that will be published and available for public exposure for around four months. This approval means that, should no public comment be received, the Board is satisfied that this DIS would be acceptable as an international standard as is (ibid., para 11). The staff and potential Task Based Groups then consider comments to the exposure draft and write the final Draft International Standard which is discussed and approved or changed by the Board. Depending on the significance of changes made it may be subjected to renewed public exposure. Throughout the whole process, the Board is advised by the CAG which will give input on technical matters and documents issued by the IPSASB.

Two points should be added to this idealized view of the process. First, mainly due to voluntary Board members’ time constraints, the IPSASB can only meet four times a year to discuss salient issues and to vote on standards and other papers. Therefore, the drafting and revision of standards and comments is, as described above, mainly done by IPSASB’s permanent staff. While some members of the Board may be involved in the drafting via Task Based Groups, this part of the process puts considerable power into the hands of a few staff members – who are usually recruited from the Canadian accounting profession. Second, the Board will at times consider stakeholder requests to look into certain issues, including considering whether to issue a standard on a topic. One IPSASB staff member remarked with regard to Board funding that “money talks”,[271] not in the sense of dictating outcomes but rather in terms of influencing the topics the Board is working on. At the same time, there is good evidence that the Board only follows those suggestions if it is convinced. For example, when the UN was considering adopting IPSASs, it attempted to steer discussions towards topics of interest to the UN. This was quickly shut down by the chairman who relegated UN and other observers and Technical Advisors to the back of the room for all future meetings. [272]In sum therefore, the Board seems quite independent in terms of its standard setting process.

II.2. Accounting concepts

Like most techniques, accounting is not an end in itself. Similarly, like most techniques, it can be a means to more than one end and different users may want different things from it. However,

[270] IPSASB, 7.
[271] Interview 23.
[272] Interview 3.

one of the main purposes of accounting in business and government alike can be said to be control.[273] In the crudest terms, one can distinguish internal control – using accounting for managerial decision making within an organization – from external control holding an organization, such as the government or the leadership of a business, accountable to an external stakeholder, such as parliament or shareholders. When it is combined with budgeting, accounting can also feed back into financial planning. In business, accounting for internal control is sometimes called management accounting as it serves the management of an enterprise and is not designed to be publicized. Accounting for external control usually falls into the category of financial reporting (often audited).

Financial reporting is the process of utilizing accounting techniques to represent the financial position of an enterprise – such as a business, line ministries, or an entire government – towards the outside world so that it can be held to account by its stakeholders (and checked against a previously agreed-upon budget). In government, financial reports may be audited by an institution that is independent of government – often part of the legislative – such as a court of auditors or similar supreme audit institution. In business, this service is commonly provided by the audit arm of an accounting firm. IPSASs, just like their private sector relative IFRSs, are financial reporting standards. Put simply, they prescribe how government entities should report financial information to the outside world. More precisely, the regular output of reporting on IPSASs basis are general purpose financial statements (GPFS) meaning they are prepared for general purposes rather than to contain information tailored to a specific user.[274] While the Board initially also considered dealing with public sector audit issues, its standards project was from the beginning focused solely on accounting, leaving the field of auditing to organizations such as INTOSAI.[275]

By prescribing how to report accounts, the Board also decides how to arrive at the information to be reported, that is, which accounting technique to use. This includes a myriad of technical decisions such as what counts as a transaction, when to recognize a transaction, which assets and liabilities to recognize and how to measure them. However, as will be discussed in the following chapter, this does not preclude different systems being in place for reporting and internal use. In fact, most governments operate multiple systems in parallel or different systems for different purposes. For example, budgetary accounting tends to differ a great deal from

[273] Jones and Pendlebury, *Public Sector Accounting*.
[274] Thomas Müller-Marqués Berger, *IPSAS Explained: A Summary of International Public Sector Accounting Standards* (Newark, UK: Wiley, 2018), 10.
[275] International Public Sector Accounting Standards Board. Minutes of meeting. April 2003.

financial reporting and systems individual government entities might use for their internal management.[276] At the international level there are also several standardized and harmonized statistical systems for macroeconomic reporting and comparability between countries – this is usually confusingly called "national accounting".

One much-discussed way in which accounting systems differ is the "accounting basis". Essentially, the accounting basis refers to the rule that is used for when a transaction is recognized. Often regarded in particular by accrual proponents as opposing ends on a spectrum of accounting bases (from less informative to more informative) are cash accounting and accrual accounting.[277] Under the cash basis of accounting, a transaction is recognized as cash is paid or received for a good or service delivered. Under accrual, recognition happens sooner, namely upon delivery of goods or services and issuance of an invoice.[278] This difference matters because accrual can account for goods and services bought on credit and therefore offers more timely and accurate information on the current assets and liabilities. Under cash accounting, a government could instruct a company to pave a road and commit to paying them for that service, but not pay them until months after completion. Until the road is paid for, it technically does not appear in the balance sheet as an expense. This presents opportunities for creative accounting but can also have significant implications for public financial management. The following chapter will elaborate on the example of pension policies where, under standards like IPSASs, governments would have to recognize future obligations to their pensioners when they arise rather than once those pensions are paid out – leading to billions in additional liabilities and potentially massive implications for policy making.

II.3. Content of IPSASs

As said above, there are of course more than one potential set of accrual standards. In fact, there is a myriad of possible accrual standards because of the countless additional technical decisions that accounting standards contain, such as which liabilities and assets to report, and which

[276] Jones and Pendlebury, *Public Sector Accounting*.
[277] In general, as these concepts refer to the time of recognition of a transaction, it would be more accurate to speak of the obligation and commitment bases and cash basis as two ends of the spectrum with accrual in the middle. This is because under the obligation and commitment bases, often found in budgeting, recognition happens when the government commits to a transaction, while cash recognizes it only when the service has been rendered and the cash received. Accrual therefore lies somewhere between them. However, in general the terms "accrual" and "cash" are used as shorthand for different accounting systems (often more cameralist vs. more business-like systems) that differ not only in their basis but also in other aspects such as which liabilities are recognized and what the measurement and valuation bases are. See: Jones and Pendlebury.
[278] Jones and Pendlebury.

measurement and valuation bases to apply to the recognized amounts.[279] It would therefore be most accurate to say IPSASs are *an* accrual basis standard, one of many possible ones. The specific contents of the 43 IPSASs[280] that have been released in the Board's history go beyond "accrual" in terms of the timing of recognition of a transaction. It is not necessary here to go into technical minutiae of accounting and IPSASs. Instead, this section gives a broad overview of their contents before highlighting a few of the points of contention. The main take-away is that IPSASs are one potential flavor of accrual standards, containing within them thousands of decisions by a private standard setter as to what should constitute international best practice in government financial reporting.

When the IPSASB began its standards project under newly elected chairman Ian Ball in 1996, its main goal was to achieve a suite of high-quality standards as soon as possible. As explained above, the chosen strategy was to copy the existing private sector standards set by the IASC, translating their language into the public sector equivalent where necessary. This would not just guarantee the IPSASB would have a relatively complete work product early on but also followed the underlying philosophy of much of the accrual movement that there is no reason for public sector and private standards to differ fundamentally. Therefore, especially the core set of 20 standards, initially completed in 2002, directly corresponds to existing private sector IFRSs. However, most of the additional 23 standards developed hence also have a corresponding private sector standard. This is because the Board aims for convergence with IFRSs as much as possible and will often take existing private standards as a starting point for developing new IPSASs. It will adapt them or make entirely new standards only where the public sector has unique requirements.[281] This is the case for transaction types that exist solely in the public sector context, such as taxation. *Table 3.3*[282] provides an overview of existing IPSASs, as well as corresponding IFRSs where they exist.

[279] Jones and Pendlebury.
[280] Current IPSASs are numbered 1 through 43. However, IPSASs 6, 7, 8, 15, and 25 have been superseded by other standards and are no longer in effect. This brings the total number of currently effective IPSASs to 38. See, IPSASB, *Handbook of International Public Sector Accounting Pronouncements*, vol. I, 2022; IPSASB, *Handbook of International Public Sector Accounting Pronouncements*, vol. II, 2022; IPSASB, *Handbook of International Public Sector Accounting Pronouncements*, vol. III, 2022.
[281] Müller-Marqués Berger, *IPSAS Explained*, 11.
[282] The data for the table was draw from: IPSASB, *Handbook of International Public Sector Accounting Pronouncements*, 2022; IPSASB, *Handbook of International Public Sector Accounting Pronouncements*, 2022; IPSASB, *Handbook of International Public Sector Accounting Pronouncements*, 2022; Müller-Marqués Berger, *IPSAS Explained*.

Number	Name	Corresponding IFRS[1]
IPSAS 1	Presentation of Financial Statements	IAS 1
IPSAS 2	Cash Flow Statements	IAS 7
IPSAS 3	Accounting Policies, Changes in Accounting Estimates and Errors	IAS 8
IPSAS 4	The Effects of Changes in Foreign Exchange Rates	IAS 21
IPSAS 5	Borrowing Costs	IAS 23
IPSAS 6	Consolidated and Separate Financial Statements (Superseded by IPSAS 34)	IAS 27
IPSAS 7	Investments in Associates (Superseded by IPSAS 36)	IAS 28
IPSAS 8	Interests in Joint Ventures (Superseded by IPSAS 37)	IAS 31
IPSAS 9	Revenue from Exchange Transactions	IAS 18
IPSAS 10	Financial Reporting in Hyperinflationary Economies	IAS 29
IPSAS 11	Construction Contracts	IAS 11
IPSAS 12	Inventories	IAS 2
IPSAS 13	Leases (to be superseded by IPSAS 43)	IAS 17
IPSAS 14	Events After the Reporting Date	IAS 10
IPSAS 15	Financial Instruments (Superseded by IPSASs 28, 29, and 30)	IAS 32
IPSAS 16	Investment Property	IAS 40
IPSAS 17	Property, Plant, and Equipment	IAS 16
IPSAS 18	Segment Reporting	IAS 14
IPSAS 19	Provisions, Contingent Liabilities and Contigne Assets	IAS 37
IPSAS 20	Related Party Disclosures	IAS 24
IPSAS 21	Impairment of Non-Cash-Generating Assets	IAS 36
IPSAS 22	Disclosure of Financial Information About the General Government Sector	None
IPSAS 23	Revenue from Non-Exchange Transactions (Taxes and Transfers)	None
IPSAS 24	Presentation of Budget Information in Financial Statements	None
IPSAS 25	Employee Benefits (Superseded by IPSAS 39)	IAS 19
IPSAS 26	Impairment of Cash-Generating Assets	IAS 36
IPSAS 27	Agriculture	IAS 41
IPSAS 28	Financial Instruments: Presentation	IAS 32/IFRIC 2
IPSAS 29	Financial Instruments: Recognition and Measurement	IAS 39/IFRIC 9/IFRIC 16
IPSAS 30	Financial Instruments: Disclosures	IFRS 7
IPSAS 31	Intangible Assets	IAS 38/SIC 32
IPSAS 32	Service Concession Arrangements: Grantor	SIC 12
IPSAS 33	First-Time Adoption of Accrual Basis International Public Sector Accounting Standards (IPSASs)	IFRS 1
IPSAS 34	Separate Financial Statements	IAS 27
IPSAS 35	Consolidated Financial Statements	IFRS 10
IPSAS 36	Investments in Associates and Joint Ventures	IAS 28
IPSAS 37	Joint Arrangements	IFRS 11
IPSAS 38	Disclosure of Interests in Other Entities	IFRS 12
IPSAS 39	Employee Benefits	IAS 19
IPSAS 40	Public Sector Combinations	IFRS 3
IPSAS 41	Financial Instruments	IFRS 9, IFRIC 16, IFRIC 19
IPSAS 42	Social Benefits	None but refers to IFRS 17
IPSAS 43	Leases	IFRS 16

***Table 3.3**: Overview of IPSASs including corresponding IFRSs.*

Core standards (IPSAS 1-20) deal with many of the most basic questions. For example, they instruct the preparer how to present General Purpose Financial Statements including the structure and components to be included (IPSAS 1), how to present information about cash flows (IPSAS 2), how to report interest and other expenses incurred through borrowing (IPSAS 5), and many other things such as leases (IPSAS 13) and construction contracts (IPSAS 11). As should be obvious, all of these things – such as how and when to report revenue from exchange transactions, that is, simply put, buying and selling of goods and services (IPSAS 9) – are relevant to both businesses and governments alike. The respective IPSASs and IFRSs in these domains are identical to a large degree. There are few IPSASs that do not primarily draw from or correspond to an existing IFRS. Those standards that do not have a corresponding IFRS concern issues genuine to the public sector environment such as taxation and other non-exchange transfers (IPSAS 23). However, even in the drafting of the public sector exclusive IPSAS 23, the private sector on accounting for government grants (IAS 20) was considered.[283]

Aside from issues like taxation, everything else covered by the standards, while tailored to the public sector context, is not exclusive to government financial reporting and therefore has equivalent private sector standards. This includes roles for reporting on intangible assets (IPSAS 31) as well as a standard providing guidance for first-time adopters of accrual IPSASs (IPSAS 33). The Board has also issued a standard for reporting under the cash basis which is added to the suite of accrual standards as a stand-alone. This standard serves countries lacking the capacity to adopt accrual standards and whose accounting systems may be less developed. Its origins as a standard for developing economies becomes clear by the prominent inclusion in the original standard of requirements for reporting of external assistance such as loans, grants, technical assistance and development assistance by the IMF, World Bank, and other actors like individual governments.[284] The 2017 revision of the cash basis standard moved these requirements from mandatory into the encouraged disclosures.[285] The Board is still clear, however, that ultimately, this standard is meant to help transition countries to accrual IPSASs.[286] The role of IPSASs in developing economies and the Board's increasing dominance in this space, will become clear in Chapters 4 and 5.

[283] IPSASB, *Handbook of International Public Sector Accounting Pronouncements*, 2022.
[284] Müller-Marqués Berger, *IPSAS Explained*; IPSASB, *Handbook of International Public Sector Accounting Pronouncements*, 2022.
[285] IPSASB, *Handbook of International Public Sector Accounting Pronouncements*, 2022.
[286] IPSASB.

From the above it is clear that IPSASs are strongly rooted in a school of thought that seeks to limit differences in accounting between public and private sectors to a minimum. Convergence with financial reporting standards regulating the private sector is an ongoing main objective of the IPSASB. The result are standards that, besides being set by a private sector organization, come with a heavy resemblance to those standards used in the private sector. This strong private sector flavor is, as will become clear in following chapters, not necessarily palatable to all public sectors around the world – in particular those with a strong cameralist and law-based tradition as can be found in many continental European systems. Many of the technical decisions that ultimately led to the current set of IPSASs were initially also controversial among Board members, especially public sector members from France and Germany.[287]

Two core decisions should be highlighted that have been fault lines within the Board over its history. One is that of using fair value over historic cost. Governments will often account for their assets at historic cost, that is, the value they were bought for and then depreciate them until they “disappear” from the books. The danger of this is, according to accrual proponents, that an entity might not have an accurate picture of the value of all its assets at any given moment and that it might discourage maintenance of assets.[288] Proponents of IPSAS-type standards argue that for prudent PFM, governments need this picture and that it can be better achieved by valuing assets as if they were to be sold at current market prices – or fair value. Opponents of the fair value approach would argue that this is an inappropriate measure for government assets which are never intended to be traded on markets and instead are held for their societal or cultural value – such as schools or heritage assets – making market value a relatively meaningless figure. Similarly, some fear using fair value will drive financialization and risks exposing the public sector to market logic.[289] As with many debates in government accounting, this is mostly a political rather than a technical question. While fair value might be more sophisticated in many ways, the ultimate question remains whether having this information and producing it in this way is desirable for public sector purposes and aligns with the interests of a given government.

Similarly, there have been throughout the Board’s history many debates over which assets and liabilities should be recognized and included in government balance sheets. For one, there are

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[287] Interview 2. Interview 3.
[288] Metcalfe and Sanderson, “Is Cash Still King? Maximising the Benefits of Accrual Information in the Public Sector.”
[289] See, e.g., Deborah Anderson and Tomo Suzuki, “Financialisation of Global Markets: The Role of Private Sector Accounting Standard Setting,” *Law and Financial Markets Review* 8, no. 1 (März 2014): 20–26.

asset classes such as heritage sites that seem to be quite different from any assets a business might have. Even more controversially, governments operating expansive pay-as-you-go-based welfare systems have enormous unfunded pension and social benefit liabilities. In this system, current generations of employees fund current pensioners while their own retirement benefits are not matched by any current assets (as these are promised to be paid by a future generation). At the same time, however, the government has committed to paying these future pensioners, thereby accruing an (unfunded) liability. On the Board, there ensued a long and protracted debate around whether commitments governments make to social benefits such as pensions should be recognized as liabilities under IPSASs. The Board grappled with this issue for more than a decade before finally releasing IPSAS 42 on social benefits in 2019.[290] The proponents of recognizing social benefit-related liabilities had won out over more skeptical voices – again from France and Germany-based Board members in particular. Chapter 4 will explain why these technical decisions matter, by showing, among other things, that the recognition of pension liabilities has far reaching distributional consequences for those states adopting the standards.

Conclusion

This chapter has introduced the key organizational actors of this thesis: the IPSASB, its parent organization IFAC, as well as other relevant organizations in their ecosystem. To prepare the ground for the upcoming analysis, the chapter has provided a historically rooted overview of each organization as well as their current structures. To limit this discussion to a manageable size, the discussion was focused on those aspects of the organizations most relevant to the topic of this thesis. At this point, therefore, the reader should be familiar with IFAC as the center of the organized accounting profession as well as the general setup of IFAC’s global network. This network in particular will become relevant to the theoretical explanation of the spread of IPSASs as part of Chapter 6. Exploring the composition and nature of these organizations, the chapter showed that both are fundamentally private in nature. In telling their history, this chapter also already revealed that IFAC and the parts of it that were to become the IPSASB have for a long time worked actively towards expanding the profession’s influence in the public sector – and has hinted at the role that strategic networking with other organizations played. With some of the groundwork laid, in 1996 the profession’s efforts accelerated substantially

[290] IPSASB, *Handbook of International Public Sector Accounting Pronouncements*, 2022.; Public Sector Committee. Minutes of meeting. November 1993; International Public Sector Accounting Standards Board. Minutes of meeting. April 2010; International Public Sector Accounting Standards Board. Minutes of meeting. June 2013.

with the beginning of the IPSASB’s (then still the PSC) standards project which would only take six years to arrive at a full suite of 20 standards, since expanded to 43.

In the second part, the chapter then offered a summary of the IPSASs, the standards at the center of this thesis. From this, it is clear that each accounting standard is the result of a myriad of technical decisions. In the case of the IPSASB, these decisions were taken with existing private sector IFRSs as the guiding light. Thus, the description shed light on the specific flavor of accrual accounting that IPSASs represent: they are privately set standards with a distinctly private sector flavor. To their proponents this is a desirable state, considering existing private sector standards utilize more advanced accounting methods than most governments, and given proponents’ conviction that the accounting treatment of public and private sectors should diverge as little as possible. As the following chapter will argue, however, this view is not shared universally. In fact, the appropriateness of accrual standards like IPSASs is very much contested. The chapter will reveal that IPSASs have distributional consequences that should make them an undesirable choice for some governments as well as certain actors within the state. For every “winner” benefiting from accrual reforms, there is at least one ”loser”.

CHAPTER 4: WIDESPREAD ADOPTION & DISTRIBUTIONAL CONSEQUENCES: TRACING THE DIFFUSION OF THE IPSASs

This chapter will present the puzzling diagnosis that despite vast power and resource asymmetries between states and a private standard setter, and despite potentially significant distributional implications of the standards it sets, this private entity has successfully diffused its standard to a majority of governments around the world and reached focality in its domain. It will show that what proponents of International Public Sector Accounting Standards (IPSASs) praise as a desirable outcome – more financially-driven decision making – is seen by its opponents as a threat to the status quo. The chapter will elaborate on the International Public Sector Accounting Standards Board's (IPSASB) claims that its standards are universally applicable, independent of geographical or problem context, and that these standards present a neutral-technical improvement over existing accounting systems. The chapter will juxtapose these claims with a detailed exploration of the potential consequences of IPSASs. This will demonstrate not just that these claims overstated narratives that do not necessarily apply as universally as claimed, but also that their application stands to create winners and losers among their regulatory targets and other actors. Through showing in detail who wins and who loses the chapter further clarifies actor motivations and ultimately the reasons for why the Board and supporting actors do what they do. It also clarifies why we should care. The following two chapters will show the tireless effort that has gone into convincing those supporting actors that IPSASs are in their interest.

Part I takes as its starting point the narratives and claims the IPSASB tells to sell its standards. Through an in-depth discussion of the distributional consequences, it will become clear that, because of the winners and losers created, it is not obvious that IPSASs should spread among states. While the Board can rely on the mask of technical neutrality to conceal much of the distributional consequences explored here; and while its persistent narrative discrediting existing standards and making them responsible for almost all ills of modern government is sure to convince some; these strategies alone will not diffuse the standards. This is because distributional consequences will create resistance amongst losers – or at least those losers that can see past the mask of neutrality.[291] To show this, Part I will first elaborate on the flip side of

[291] As Chapter 6 will show, there was – and still is – actually a surprising lack of awareness of these standard and their potential impacts – even among the most obvious benefactors such as Big Four accounting firms.

the IPSASB's probably biggest sales pitch, namely the claim that IPSASs' decision-usefulness makes them universally beneficial to all policy areas from health care to climate change. Having laid out key claims of accruals advocates (I.1), Section I.2 will explain that the dark side of this promise is the threat of mechanistic, data-driven policy that forces policymakers' hands and reduces their discretion. Section I.3 argues that the promised benefits of accrual standards over existing systems are overstated and might only materialize over long time-horizons with high immediate costs. From the point of view of critics, IPSASs therefore look like subsidies to the accounting profession with uncertain benefits. Section I.4 elaborates on the power shifts such standards can trigger within the state. It identifies accounting functions within government as one potential winner. It is not by accident that these organizations are directly targeted by the IPSASB's strategic networking as Chapter 6 will show. Taken together, Part I thus paints a picture of the claims and criticisms surrounding IPSASs. While beginning to shed light on key strategies of the Board (claiming universality and legitimacy) it also should leave the reader somewhat sceptical of whether these standards would ever be successful. The Board seems to face an uphill battle.

However, as borne out in the data presented in Part II, the IPSASB has been highly successful against the odds. Part II shows that despite their lack of obvious benefit to many key stakeholders within states, IPSASs have, indeed, diffused globally. Despite doubts over depth of implementation and difficulty in ascertaining the true impacts in each jurisdiction, the overall picture is clear: Over half the world's states have taken steps to align themselves with a private accounting standard. Many of them are adopting IPSASs directly and without modification. International organizations have adopted the standards and recognise them as international best practice. To show this, after discussing data availability (II.1), Part II will present (II.2) and discuss (II.3) two comprehensive datasets on IPSASs diffusion. Part III will conclude. In line with the theoretical framework laid out in Chapter 2, the next two chapters will then argue that enlistment of powerful actors in the IPSASBs network has been the crucial factor in both spreading the narratives about IPSASs and the standards themselves.

I. Cash, Accruals, and Winners and Losers

Using the IPSASBs claims about its standards as a starting point, the following sections will explore the unintentional and intentional distributional consequences of accrual standards such as IPSASs. Section I.1 will introduce in brief the key claims of accrual proponents. These claims provide the backdrop for much of the discussion to follow. Later sections will deepen the discussion of these claims. Section I.2 then draws on the example of pensions policy to reveal accrual standards' potential for direct and indirect effects on policy. Section I.3 will discuss how a lack of evidence for IPSASs benefits, coupled with long time horizons required for reforms, and immediate and high switching costs, promise a clear win for accounting firms but should prompt hesitation from many political actors. Finally, Section I.4 explores how it is far from obvious why governments should desire the transparency offered by standards such as IPSASs, and how power shifts within the bureaucracy as well as other barriers are expected to lead to further resistance – or at least inertia – towards their adoption.

I.1. A primer on accrual benefits

This section provides a brief primer on the key benefits claimed by IPSASs proponents. Sections to follow will the show through examples that there are clear distributional consequences that make these benefits seem somewhat less straightforward.

Proponents of accrual accounting standards usually connect their advocacy for accruals to a fundamental critique of cash-basis systems, which still represent the status quo in many governments. Mainly, they argue that cash systems do not provide enough data to get a sufficiently full view of assets and liabilities in order to make prudent public financial management decisions. This is because, as explained above, fully cash-based accounting only record money paid in and out but not money still owed or the present value of existing assets.[292] A bridge built is recorded when it is paid for but then disappears from the books. The information presented by accrual accounts is arguably "more complete".[293]

One consequence of incomplete financial information is said to be a proneness to mismanagement of existing assets, because pure cash accounts usually do not record the present value of existing assets or to what extent they are being used (or if they are impaired). According to one IPSASB technical director, "if you do not know what you have, you cannot manage it".[294] IPSAS-style accrual standards, on the other hand, take into account the potential impairment of non-current assets (such as infrastructure), as well as their fair value, giving the

[292] Jones and Pendlebury, *Public Sector Accounting*.
[293] Metcalfe and Sanderson, "Is Cash Still King? Maximising the Benefits of Accrual Information in the Public Sector," 6.
[294] Metcalfe and Sanderson, 20.

government a better gauge on the actual (market) value of its assets. This, in turn is argued to help maintain assets, sell surplus ones and make better policy for replacement.[295]

Conversely, cash accounting is said to discourage maintenance of assets as it is simply recorded as an expense, leading to crumbling infrastructure. This is because on the balance sheet it is not reflected whether the asset has become less valuable (impaired) through wear and tear and might require maintenance expenses to be restored to its full value. For example, a bridge might in an extreme case be too damaged to even set foot on. Maintenance, while entailing a cost, would also make the bridge safe again, restoring the value of the asset. Because IPSAS-style accrual standards take these things into account, the benefits of maintenance become visible in the balance sheet, thereby incentivising upkeep of important infrastructure such as bridges, roads, or schools.[296]

The same is said to be true for the management of liabilities, many of which are not recorded under cash-basis systems. Because accrual accounts recognise incomes and expenditures when they accrue, rather than when they are paid in or out, they give a more accurate picture of the money the relevant entity owes and is owed. One prominent and contentious example under accruals is the recognition of pension liabilities and other social benefits at the time from which an employee earns the right to a future payment rather than at the time of them being paid out. This is said to encourage longer-term financial planning and intergenerational fiscal sustainability in states.[297]

Beyond the management of assets and liabilities, accrual accounting is said to have further advantages related primarily to accountability and transparency of fiscal policy and financial management. On the basis of the above, it is evident that cash systems are argued to be less effective as well as less transparent because they do not fully account for all assets and liabilities. This, it is argued quite dramatically in one report, "leads to a breakdown of trust in government".[298] Using accrual-basis accounting instead will help government provide its

[295] IFAC, "IFAC's Point of View: Greater Transparency and Accountability in the Public Sector," IFAC Website, accessed August 11, 2021.
[296] Metcalfe and Sanderson, "Is Cash Still King? Maximising the Benefits of Accrual Information in the Public Sector."
[297] Metcalfe and Sanderson; Sagé de Clerck, "PFM Blog: Is Cash Still King?," June 8, 2020.
[298] Metcalfe and Sanderson, "Is Cash Still King? Maximising the Benefits of Accrual Information in the Public Sector," 4.

stakeholders – including parliament and citizens – with a fuller picture of its finances, leading to better control and higher levels of trust.[299]

In the same vein it is also often argued that while governments demand high levels of transparency from business – for example through mandating IFRS – they do not hold themselves to the same standard. Because government activity represents a large share of the GDP in most countries, and in light of various financial crises such as the European sovereign debt crisis, IFAC, IPSASB, and other advocates for accrual have consistently argued that there is an urgent need for governments to be judged by the same standards of transparency and accountability as businesses. Similarly, it is often claimed that increased transparency and improved financial data will also be welcomed by investors and credit rating agencies, driving down borrowing costs and improving credit ratings.[300]

I.2 Accruals force policy: the case of pensions policy

The main advantage ascribed to accrual accounting, besides accountability, is that it generates more decision-useful information. Better knowledge and reporting of assets and liabilities, proponents argue, leads to better public policy decisions regarding the management of assets and liabilities, and, in turn, to better outcomes "for people, the planet, and the economy".[301] To underline the claim that accrual information can have substantial impact, IFAC and other proponents often link their advocacy to major crises. These proponents argue that the Asian Financial Crisis of 1997, the global financial crisis of 2008, and the associated sovereign debt crisis in Europe were symptoms of failing cash accounting that could have been prevented through accrual standards.[302] Similarly, achieving the UN's Sustainable Development Goals (SDGs), combatting climate change, and tackling the COVID-19 pandemic are challenges which require accruals-based public financial management.[303] Writing on the challenges of climate change and reaching the SDGs, the current IPSASB chairman answers the question "can public sector accountants help save the world?" with a resounding "yes we can".[304]

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[299] Metcalfe and Sanderson, "Is Cash Still King? Maximising the Benefits of Accrual Information in the Public Sector"; IFAC, "IFAC's Point of View: Greater Transparency and Accountability in the Public Sector."
[300] Ian Ball, "Achieving Greater Accountability in Government Through Improved Public Sector Financial Reporting" (Orlando, Florida, July 10, 2005).
[301] IFAC, "IFAC's Point of View: Greater Transparency and Accountability in the Public Sector."
[302] Interview 3. Former IPSASB Chair. June 25, 2018. In-person.
[303] IFAC, "IFAC's Points of View: Climate Action," no date.
[304] Ian Carruthers, "Can Public Sector Accountants Help Save the World? Yes We Can - and Here's Why.," LinkedIn, July 28, 2021.

Accrual reporting standards such as IPSASs would enable more financially driven decision making. Especially, as argued in many more recent reports, if they are tied in with accrual budgeting systems, they have the potential to "embed the finance function fully in day-to-day decision making"[305] as the richer information created by accrual accounting about the value of assets and size of liabilities would feedback directly into financial planning. The argument that IPSASs provide more decision-useful information and will have steering effects for both day-to-day decision making and policy making, is one of the strongest and most repeated arguments in the repertoire of proponents of these standards.[306]

Through providing decision-useful information, accrual standards are claimed to cure many of the ills of government, as well as help tackle global challenges – this is also one of the core narratives of the IPSASB's marketing efforts. The issue linkages referred to above, demonstrate the IPSASB's efforts to create and maintain the narrative that its standards are universally portable: conceivably, they do not merely prevent financial crises but also improve health policy outcomes and help solve climate change. Their claimed decision-usefulness suggests IPSASs are applicable to just about any policy domain – in any problem context or geographic location. As was theorized in Chapter 2, private regulators need standards regarded as highly portable in order to be successful on a large scale.

However, as most sales pitches, these claims tend to be one-sided accounts at the very least. Critics of IPSASs are concerned that the increased feedback of financial information into policy decision-making will force policymakers' hands and result in more technocratic and less democratic financial management. Especially if fed back into budgeting, accrual data could dictate that financial decisions need to be made in a certain way. For example, these standards could necessitate allocating larger portions of the budget to the maintenance of infrastructure assets such as roads and bridges.[307] This is often seen as a solely positive outcome by proponents: IPSASB lobbying materials frequently laud the potential of accrual accounting standards to de-politicize financial decision-making and remedy mismanagement of assets.[308]

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[305] Metcalfe and Sanderson, "Is Cash Still King? Maximising the Benefits of Accrual Information in the Public Sector," 8.
[306] Metcalfe and Sanderson, "Is Cash Still King? Maximising the Benefits of Accrual Information in the Public Sector"; Müller-Marqués Berger, *IPSAS Explained*.
[307] Institut der Wirtschaftsprüfer, "Reaktion Auf Den Sonderbericht Des Bundesrechnungshofes," December 1, 2017; Bundesrechnungshof, "Antwortschreiben an Das Institut Der Wirtschaftsprüfer," January 17, 2018.
[308] Metcalfe and Sanderson, "Is Cash Still King? Maximising the Benefits of Accrual Information in the Public Sector."

However, this entails democratically elected politicians and bureaucrats losing discretion over how the state allocates its assets. As the German Court of Auditors (*Bundesrechnungshof*) noted regarding the potential introduction of IPSASs in the EU, accounting systems "should not sanction or mechanistically constrain the budget legislator in its fiscal policy decisions".[309] The *Bundesrechnungshof* suggested that crumbling infrastructure is more commonly a side effect of democratically elected politicians choosing to allocate resources to needs that are seen as more urgent or politically useful.[310]

This shows that there are distributional consequences to making financial decision-making more mechanistic. Discretionary power over budgeting and asset allocation is transferred away from elected officials and the bureaucracy, towards the accounting systems and those who maintain them. One could also argue – as does the German Court of Auditors – that this redistribution of power would make financial decision-making less democratically legitimate.[311] Elected officials – prominently parliament – and those currently in charge of financial decision-making in the bureaucracy stand to lose power, while accounting systems and those who devise them stand to gain in influence. It would therefore be reasonable to expect resistance to IPSASs diffusion both from within the bureaucracy and from legislators – who will in many cases be the ones to make decisions about IPSASs adoption.

The following sections will illustrate these effects using the example o98ensionns policy. This example reveals how changing accounting standards to IPSASs could directly drive policy change in ways that have significant distributional consequences. Especially countries with unfunded defined contribution pensions schemes could have their pensions budgets affected almost overnight, taking away budgetary predictability and discretion from politicians (section I.1.1.), and might be incentivized in the long run to shift to a defined contributions model thus shifting risks onto labor (section I.1.2).

I.2.1. Direct mechanistic impacts

Pensions are paid a long time after an employee has rendered a service. However, the right to that pension and inversely the pension obligation for the accounting entity – for example a

[309] Bundesrechnungshof, "Antwortschreiben an Das Institut Der Wirtschaftsprüfer," January 17, 2018 (own translation from the German original).
[310] Bundesrechnungshof.
[311] Bundesrechnungshof, "Special Report Pursuant to Article 99 Federal Budget Code on the Intended Implementation of Harmonised European Public Sector Accounting Standards (EPSAS) in the Member States of the European Union."

government – arise while that employee works. In cash accounting systems, expenditures are recorded only when money is paid out. In accrual systems, on the other hand, liabilities are recognized as they accrue. Hence, governments must recognize future pension payouts in their current balance sheet as a debt item. To do so, they must calculate the present value of those liabilities applying a discount rate.[312] To be able to guarantee the pensions of their public servants, governments have rules around setting aside part of the budget for pension provision, which in turn is affected by the size of the pension liabilities. Since pensions are a significant debt item for governments, small changes in the applied discount rate can have major impacts on pension provisions and, in turn, fiscal policy. IPSASs prescribe a market-based variable interest rate as the basis for the discount rate, thus introducing potentially significant variation into pension provisions and with it, undesirable, mechanistic steering effects. These effects can be harmful because they impact the allocation of resources because larger pension provisions mean that politicians have less flexibility to spend on other potentially socially useful causes such as education or employment schemes. The accounts of the German states Hamburg and Hesse provide an example for this.

Hamburg shifted to accrual accounting for the first time in 2015. However, the city state chose to deliberately deviate from the use of variable market-based interest rates as prescribed by international accounting standards, as well as, to a lesser degree existing German standards for public sector accrual accounting. Instead, Hamburg opted to apply a constant 6 per cent discount rate (taking inspiration from German tax law), resulting in pension provisions of €23.1 billion. Had the city instead applied the 3 per cent discount rate prescribed by German accrual accounting standards pension provisions would have had to be increased by almost half to €34.8 billion. Market-based rates required by IPSASs would have been even lower, resulting in an even bigger increase in required pension provisions. According to the city, the resultant increase in pension provisions would have put undue strain on the budget and would have triggered cuts in other areas.[313]

Similarly, Hesse, another German state that has trialed full accrual accounting generally in line with IPSASs, also registered a significant increase in pension provisions for the year 2015. Compared to the previous year, pension provisions had to be increased by €14.7 billion – €14.1 billion of which was due to a change in the discount rate from 3.95 to 2.65 per cent.[314] The state

[312] Based on interest rates averaged over a number of years.
[313] Finanzbehörde Hamburg, "Geschäftsbericht Der Freien Und Hansestadt Hamburg 2015," October 19, 2016.
[314] Hessisches Ministerium der Finanzen, "Geschäftsbericht 2015."

predicted at the time that in the following year, depending on which set of accrual standard were to be used, pension provisions would either have to be increased by €4.4 billion (if IPSASs were used resulting in a discount rate of 2.2 per cent) or decreased by €2.2 billion (if German accrual standards were to be used resulting in a discount rate of 2.9 per cent).[315] To put these numbers into context, in the same year, Hesse's tax income (before any transfer payments or administrative costs) was €21 billion.[316] There is little doubt that for any government, the difference between having to put aside 20% of tax revenue or adding 10% to it promises major distributional and policy consequences.

These examples illustrate that by mechanistically forcing policymakers' hands, accounting standards can have direct distributional consequences. Choosing a more market-oriented accrual standard such as IPSAS may introduce a degree of uncertainty into pension systems that can force budget cuts and redirect government resources, creating policy implications far beyond pensions policies themselves. For example, if market interest rates decreased during economic downturn, governments would have to make additional pension provisions, forcing them to increase taxes or cut expenditure. Such pro-cyclical action would not only lead to other government initiatives receiving less funding, but would likely worsen the economic downturn.[317] We should expect governments to resist this type of unpredictable, mechanistic steering effect not just because it would constrain their ability to make policy freely or react to crises counter-cyclically but also because elected politicians are incentivized to avoid both budget cuts and tax increases. Claims of universality through decision-usefulness may therefore fall on deaf ears with potential targets.

I.2.2 Indirect impacts: putting pressure on pension systems and incentivizing reforms

Adding to these direct effects, there is also the potential for broader impacts on pension systems as a whole – ultimately leading to increased financialization and shifting of risk onto the individual. Especially in many continental European states with large welfare systems such as Germany and France, pensions systems are traditionally on an unfunded, pay-as-you-go (PAYG) basis, meaning that the current generation of employees funds the current generation

[315] Difference is in whether the interest rate is averaged over 7 or 10 years. See, Hessisches Ministerium der Finanzen.
[316] Hessisches Ministerium der Finanzen.
[317] Bundesrechnungshof, "Special Report Pursuant to Article 99 Federal Budget Code on the Intended Implementation of Harmonised European Public Sector Accounting Standards (EPSAS) in the Member States of the European Union."

of pensioners.[318] They also tend to be defined benefit systems, meaning that workers are guaranteed agreed-upon benefits. Since in accrual accounting (such as IPSAS 25) pension payouts are defined as deferred renumeration and enter the balance sheet while they accrue as opposed to when they are paid out, these countries will find their pension liabilities multiple overnight.[319] This will make PAYG systems seem less sustainable because in such schemes, future pensions are not backed up by a fund and pension liabilities cannot be fully matched with existing assets. As a result, governments are incentivized to eliminate perceived unpredictability, risk, and liabilities in the balance sheet by pre-funding pension liabilities through investing public money at capital markets or by introducing individual funded pensions with defined contribution models. This is especially tempting as demographic trends put further pressure on PAYG systems.[320]

However, it is not the case that funded models – be they individual contribution funds or sovereign wealth funds – are inherently more sustainable than PAYG systems.[321] At the same time, the shift to funded systems and to defined contribution models has distributional consequences, as it shifts much of the risk onto labor, subsidizes capital markets and institutional investors, and exposes pensions to market logic, further driving financialization. In general, switching to a pre-funded system is a zero-sum game unless it leads to an increase in economic output[322] because 'with a fixed level of output, pensioner consumption, however

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[318] Silja Häusermann, *The Politics of Welfare State Reform in Continental Europe: Modernization in Hard Times*, Cambridge Studies in Comparative Politics (Cambridge: Cambridge University Press, 2010). Both Germany and France have gradually reformed their pensions systems to include capitalized elements due to economic and demographic pressures and increasing liabilities. They were sold to the public either as complementary schemes or separate policies to raise savings rates. On the whole, however, the countries' systems are still on PAYG basis.

[319] Yuri Biondi and Marion Sierra, "Pension Management between Financialization and Intergenerational Solidarity: A Socio-Economic Analysis and a Comprehensive Model," *Socio-Economic Review* 16, no. 4 (October 1, 2018): 791–822.

[320] That demographic pressures only affect PAYG systems, however, is a myth. Funded systems are affected by demographic trends in similar, albeit slightly more hidden ways, see: Nicholas Barr, *The Welfare State as Piggy Bank: Information, Risk, Uncertainty, and the Role of the State* (Oxford: Oxford University Press, 2001), 96 ff.

[321] There are many reasons for this. As explained in the rest of this paragraph, transforming an unsustainable PAYG into a funded model will still yield an unsustainable model. A well-balanced PAYG model is fully sustainable because pension obligations are implicit debt that will never come to the surface: once those obligations become due, a new generation of pensioners will be there to pay for them. Paying down this implicit debt therefore yields less of a return than is often assumed because net worth remains the same, but the funds will have to come from somewhere, creating distributional consequences. Further, treating implicit pension debt as explicit, neglects the fact that governments can adjust these commitments, e.g. through raising the pension age. As Nicholar Barr argues, what matters is not the size of liabilities but the sustainability of the system. A good treatment of this can be found in his book: Barr, *The Welfare State as Piggy Bank*. For a shorter overview of some of the key arguments, see: Nicholas Barr, "The Truth About Pension Reform," IMF Website, Finance and Development | F&D, September 2001.

[322] While it is sometimes claimed that pre-funded systems increase growth – among other things because of increased savings – this is disputed. In fact, the evidence that switching to funded systems increases savings is shaky and even if savings did increase, this would not necessarily lead to increased output. See Barr, *The Welfare State as Piggy Bank*, 101 ff.

financed, is at the expense of consumption by workers'.[323] Additionally, a full switch away from PAYG systems would increase public spending in the short to medium term because if current workers' contributions went into private pension funds, they could no longer be used to pay current pensioners – necessitating tax raises, cuts elsewhere, or additional debt, all of which would be politically unpopular.[324] A more gradual transition could also prove highly unpopular given at least one generation would be paying both into the current system and their individual savings accounts.[325] Welfare state retrenchment of this scale may hence be politically difficult to implement, especially considering the significant network of organized interests that exist around pensions.[326] We would therefore expect resistance to accounting standards that put further pressures on existing PAYG systems. Accruals may put politicians between a rock and a hard place: accept high debt figures and be criticized for unsustainable seeming pensions systems or risk facing the wrath of labor and pensioners by introducing complex and unpopular pensions reforms.

As opposed to the direct effects on policy described earlier, these pressures to erode existing pension models do not result from an interplay of fiscal rules mechanistically forcing policymakers' hands, but from a more subtle perceptual change. Just because the way pensions are represented in the balance sheet changes, this does not inherently change the sustainability of any one pension model overnight. However, accounting as a way to make economic reality visible influences and frames the way we perceive that reality and has the potential to shape policy preferences.[327] Different accounting techniques make visible different problems and thereby suggest different solutions. As Biondi and Boisseau-Sierra argue, accounting representation "drives the very definition of pension sustainability, that is, it defines what is acceptable and permissible within the framework of a pension scheme".[328] Looking back at the previous example from Germany can illustrate the potential perceptual impact of a switch to accruals: under cash accounting rules, Hesse's 2015 liabilities would have come to just over €40 billion, while under accrual accounting, they were around €150 billion. Over half of this increase came from recognizing pension liabilities under accrual, rather than cash, standards.[329]

[323] Barr, 101.
[324] Barr, 104.
[325] Häusermann, *The Politics of Welfare State Reform in Continental Europe*, 135.
[326] Paul Pierson, "The New Politics of the Welfare State," *World Politics* 1996, 38; Häusermann, *The Politics of Welfare State Reform in Continental Europe*; Jane Gingrich, *Making Markets in the Welfare State: The Politics of Varying Market Reforms* (Cambridge: Cambridge University Press, 2011).
[327] Carruthers and Espeland, "Accounting for Rationality," 55.
[328] Biondi and Sierra, "Pension Management between Financialization and Intergenerational Solidarity," 802.

Visibly higher pension liabilities make unfunded models seem less sustainable, therefore incentivizing the establishment of pension funds to be invested at capital markets and driving the financialization of the way governments manage their pensions systems and debt. The New Zealand Superannuation Fund (NZSF) is an example of a government opting to pre-fund pension liabilities through setting aside and investing public money. In the 1990s, unfunded and growing future obligations had gained political salience in New Zealand. In response, the government established the NZSF in 2001 to pre-fund pensions (and a few other obligations such as accident compensation and earthquake damage[330]) by investing in capital markets.[331] As Newberry argues in this context: "identifying and measuring future financial liabilities seems to bring with it a perceived need to invest in financial assets to match".[332] Finance Minister Michael Cullen – who had campaigned on the idea of an investment fund – argued that this measure would help avert future tax increases in the face of rising pension liabilities, yield higher returns than what paying down debt would save, and be better insulated against shifting political winds.[333] However, as has been shown, one of the key fiscal functions of the fund was window-dressing the government's net public debt numbers: while the assets put into the NZSF all entered the balance sheet, not all of the commitments that formed the rationale for the fund were recognized as liabilities, increasing net worth without reducing debt and thus decreasing only net debt.[334][335]

Beyond revealing that accrual accounting standards do not automatically eliminate all opportunities for creative accounting, the NZFS example also illustrates some of the distributional consequences of financializing pensions through pre-funding. Once established, pension funds become participants in financial markets and will be "subjected to their logic".[336] The risks associated with capital market investments the government makes will ultimately be born by society.[337] At the same time, the beneficiaries of pension funds are big financial

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[329] Hessisches Ministerium der Finanzen, "Geschäftsbericht 2015."
[330] Susan Newberry, "Whole of Government Accounting in New Zealand: A Review of WGA Financial Reports From 1993 to 2010," *Abacus* 47, no. 4 (2011): 501–24.
[331] Susan Newberry, "Public Sector Reforms and Sovereign Debt Management: Capital Market Development as Strategy?," *Critical Perspectives on Accounting* 27 (March 2015): 101–17. Michael Cullen, "Fiscal Strategy Report," in *Budget 2001* (Treasury of New Zealand), accessed October 7, 2022.
[332] Newberry, "Public Sector Reforms and Sovereign Debt Management," 105.
[333] Christine Trampusch, "A State-Centred Explanation of the Finance-Pension Nexus: New Zealand's Pension Reforms as a Typical Case," *Social Policy & Administration* 52, no. 1 (2018): 343–64; Michael Cullen, "Fiscal Strategy Report
[334] Trampusch, "A State-Centred Explanation of the Finance-Pension Nexus," 353; Newberry, "Whole of Government Accounting in New Zealand," 513. Additionally, because pension liabilities are only implicit debt, the returns from pre-paying are lower.

[336] Biondi and Sierra, "Pension Management between Financialization and Intergenerational Solidarity," 796.
[337] Newberry, "Whole of Government Accounting in New Zealand."

institutions who facilitate running the fund (in the case of the NZSF J.P. Morgan Chase and AXA[338]) as well as capital markets at large – whose depth and liquidity are increased.[339] The same is of course true for the individual savings fund model. It is no surprise that the financial services and money management industries in New Zealand were strong supporters of the NZSF, while others such as the manufacturing and producing industries were more skeptical. In other cases, the financial industry appears to be a key driver of such policies.[340] In fact, because New Zealand was accumulating assets in the fund, reducing net debt only, while continuing to borrow, increasing gross debt, it could be argued that the government was 'borrowing to invest in financial markets'.[341] This amounts to the government subsidizing capital market development instead of paying down debt or making other investments. This may serve some policy preferences and may be sound fiscal policy in some contexts. Nevertheless, as this example shows, financialization of pensions systems, partially driven by accounting rationales, clearly has very real distributional consequences.

In the case where PAYG systems are replaced or supplemented by individual saving accounts instead, there tends to be an additional distributional implication that comes with shifting from a defined benefits to a defined contributions approach. Such a shift transfers risk onto labor. This is because in defined benefit plans, the entity that is to later pay out pensions has an obligation to provide the agreed upon benefits to the employee. Therefore, it bears the actuarial risk that provision of benefits turns out to be more expensive than initially projected (because, for example, the pension has to be paid for longer than expected) as well as the investment risk for the assets set aside. Conversely, in defined contribution plans, the entity's obligation is limited to whichever amount it agrees to contribute to the pension fund (alongside the employee's contributions). Employee benefits are then determined by the combination of contributions made by the entity and employee, as well as any investment returns that have accrued in the meantime. This means that both the actuarial risk that benefits will be lower than expected as well as the potentially substantial investment risk that returns will be lower than expected fall on the employee.[342] While publicly funded PAYG systems tend to follow a defined benefits model, individual saving accounts are usually on a defined contributions basis.

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338 Trampusch, "A State-Centred Explanation of the Finance-Pension Nexus."
339 Gregorio Impavido, Alberto R. Musalem, and Thierry Tressel, *The Impact of Contractual Savings Institutions on Securities Markets*, Policy Research Working Papers (The World Bank, 2003).
340 Trampusch, "A State-Centred Explanation of the Finance-Pension Nexus," 353.
341 Newberry, "Whole of Government Accounting in New Zealand," 522.
342 Barr, *The Welfare State as Piggy Bank*, 114 f.; IPSASB, *Handbook of International Public Sector Accounting Pronouncements*, 2022.

Therefore, moving towards funded pensions systems has further distributional consequences for workers and pensioners.

The sum of these consequences, via both direct and perceptual mechanisms, make it reasonable to expect resistance from a number of groups including policy makers, workers, pensioners, as well as respective organized interests. As changes to accrual force mechanistic policy changes, and make existing pension systems seem even less sustainable, policy makers and politicians see their discretion curtailed while being forced to deal with uncomfortable reform challenges that might necessitate unpopular measures. At the same time, workers and pensioners are burdened with further risk and potentially faced with additional costs. While meaningful, these are not yet all the distributional consequences that we might expect from a switch to accrual standards. The following two sections will reveal how unclear and distant benefits, coupled with high immediate costs subsidize the accounting profession but make accrual standards an unattractive proposal for many governments; and second, how accrual standards can lead to unwanted transparency and power shifts within the bureaucracy and between executive and legislative. Exploring the creation of winners and losers in this way helps us understand better the interests and motivations of the actors involved, and, in turn, better grasp the reasons for why private regulation of the public sector emerges successfully. As will be seen in Chapters 5 and 6, the IPSASB's networking often targets those actors to whom it can (or credibly claim to) provide benefits.

I.3. Unclear benefits, long time horizons, high immediate costs

Despite the promises and high praise for accrual standards by their proponents, both their potential payoffs and actual, measured impacts are disputed to a degree that casts uncertainty over their benefits. Even proponents admit that promised benefits would take a long time to materialize. These uncertain and distant benefits are coupled with high immediate costs for many adopters, especially those who must switch from existing non-accrual systems. The combination of these factors should make adoption an unattractive proposition for policy-makers, and especially politicians who are beholden to short elections cycles, because it puts them in the position of justifying large short-term expenditures without any obvious benefits to match. In the absence of proven benefits, adopting costly accrual standards might read like a redistribution of resources to the accounting profession. Therefore, in addition to the reasons outlined in the above section, this further adds to the creation of winners and losers through IPSAS adoption.

The following sections will elaborate on these potential points of resistance, examining five in total. Firstly, opponents can credibly argue that the dangers of governments of being on cash standards are vastly overstated (I.3.1). Nations' internal financial management systems tend to be more complex than simply 'being on cash' or 'being on accruals'. No modern government of a developed nation operates on a sole cash basis for all purposes. Instead, there tend to be various internal, specialized systems in place to ensure assets such as road infrastructure are properly managed. It is also worth keeping in mind that IPSASs are financial reporting standards, whose primary target is not internal financial management but reporting the financial situation to the outside world. Secondly, and relatedly, even proponents admit that financial reporting by itself does not necessarily drive the promised change – unless where, as established above, existing fiscal policy rules or perceptions lead to changes (I.3.2).To fully realize all promised benefits, accrual reporting would need to be tied in with accrual budgeting. Thirdly, in many cases where accrual information is available, those in charge do not seem to make use of it (I.3.3). For example, simply the presence of accrual information has not fixed crumbling infrastructure. Fourthly, there is limited evidence that changing to accruals-based financial reports has significant reputational implications or independently lowers borrowing costs (I.3.4). IPSASB, for example, has a consistently hard time getting credit ratings agencies (CRAs) to be interested in their standards and to make use of them. Lastly, as mentioned above, switching to accruals can come with a hefty price tag, especially where existing systems are well-developed cash systems (I.3.5). For larger economies, switching costs may be in the billions. Without clear and immediate benefits to match, such an adoption may therefore be a hard sell despite continuous efforts by the Board to discredit *status quo* standards.

I.3.1. Dangers of non-accrual are overstated

In debates around accrual accounting, proponents will often state it is superior to cash accounting partially because it provides more comprehensive and decision-useful information. Cash accounting, they claim, leads almost inevitably to a dearth information on an entity's financial position, mismanagement of its assets, and increased likelihood of creative accounting. This makes sense from the perspective of those trying to make the case for accruals: cash accounting is the disease and accruals are the cure. Like other parts of the IPSASB's sales pitch, this is a vast overstatement of the dangers of non-accrual accounting – as well as of the potential of accrual. Non-accrual accounting systems are oversimplified and mischaracterized while the superiority of accruals is often simply assumed, tying into broader narratives around NPM reforms that the private sector is simply more efficient than the public sector and that it would therefore be desirable if the public sector was run more like the private sector.[343] As argued in Chapter 2, would-be private regulators of the state pursue a dual strategy of discrediting existing solutions while presenting their own rules as universal remedies.

One part of this overstatement is deliberate oversimplification: governments are often characterized as "being on cash" or "being on accruals". In fact, not only are there various hybrids between those two approaches, but in most countries, there is also more than one system of financial management in place. Most of these are well-established and specialized internal control systems for purposes such as managing debt or keeping track of assets and their maintenance.[344] The German federal government for example, which is "on cash", has had databases in place since the 1990s to monitor wear and tear on federal highway infrastructure such as bridges and tunnels and to plan adequately for their maintenance. Since the early 2000s the Building Management System offers specialized and accurate data that, according to the Court of Auditors monitors maintenance requirements much more precisely than accrual accounting systems could.[345] There are also various additional specialized projects for automatically monitoring wear and tear on road infrastructure such as bridges.[346] There are similar systems in place across modern governments to manage various parts of the state including debt and liabilities. So, while it may be true that for some of this there is no accrual accounting data, a potential lack of maintenance tends to be down to political priorities in allocating the budget rather than a lack of data.[347]

The reduction of systems being either "on cash" or "being on accruals" is a useful marketing strategy that mischaracterizes the different uses of accounting and financial management systems – in the public sector and in general. The cash-based, cameralistic accounting of countries such as Germany has as its purpose not the accurate representation of financial position or performance but rather the "registration and use of authorized budgets"[348] in line with budgetary principles. It is about facilitating parliament's exercise of its sovereign right

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[343] Mark Christensen, "What We Might Know (But Aren't Sure) About Public-Sector Accrual Accounting," *Australian Accounting Review* 17, no. 41 (2007): 51–65.
[344] Christensen, 58. Interview 11.
[345] Peter Haardt, Klaus Gehrlicher, and Wolfgang Prehn, "Bauwerks-Management-System (BMS) – Werkzeug zur Substanzerhaltung für Verkehrsbauwerke," *Bautechnik* 81, no. 10 (2004): 794–98; Bundesministerium für Verkehr und digitale Infrastruktur, "Richtlinie Zur Einheitlichen Erfassung, Bewertung, Aufzeichnung Und Auswertung von Ergebnissen Der Bauwerksprüfungen Nach DIN 1076 (RI-EBW-PRÜF)," 2017.
[346] Bundesministerium für Verkehr und digitale Infrastruktur, "Online Sicherheitsmanagement-System Für Brücken - OSIMAB," accessed October 7, 2022.
[347] Bundesrechnungshof, "Antwortschreiben an Das Institut Der Wirtschaftsprüfer," January 17, 2018.
[348] Johan Christiaens and Jan Rommel, "Accrual Accounting Reforms: Only for Businesslike (Parts of) Governments," *Financial Accountability & Management* 24, no. 1 (February 2008): 65.

over the budget and political oversight over the execution of the budget. At the same time, this does not preclude that various parts of the executives have specialized – even accruals-based – systems in place to manage specific tasks such as road maintenance. Accounting in business similarly distinguishes between management accounting for the internal running of a company, and financial reporting for presenting financials externally to its stakeholders. Some management accounting information might for good reason remain privileged, and post-hoc financial reports are not necessarily useful for the day-to-day running of the enterprise – they have a different purpose. So, to argue that implementing accrual financial reporting in the public sectors will be a multitool for all purposes and serve as a sort of panacea is both an overstatement of the dangers of non-accrual financial reporting and the promises of accruals. Governments with non-accrual accounting traditions know this and might therefore be hard to convince accrual standards buy them significant advantages.

I.3.2. Accruals require additional reforms for promised change

Switching to accrual accounting and financial reporting can have direct impacts on policy. As shown above, accounting information can lead to perceptual changes that suggest, for example, certain ways of managing debt or pensions over others. In certain domains such as pensions, depending on existing fiscal rules, there can also be direct impacts on fiscal policy. However, many of the promised benefits will not materialize through changing financial reporting alone. Instead, to achieve the impacts on financial stewardship at the highest levels, accrual accounting and reporting would need to be complemented by accrual budgeting. This would mean that financial measurement would feed directly into forecasting and resource allocation giving accounting data immediate sway over budgets. In many ways, this sort of convergence (often also to include financial statistics)[349] is the end goal of accrual advocates as it would lead to the kind of finance-driven decision-making they see as superior to current approaches. A recent lobbying report by ACCA and IFAC quotes one partner at KMPG as saying: “Where you adopt accrual accounting, but not budgeting, you do get certain benefits in terms of the reporting and the transparency around financial information, but you do not truly see the shift in decision making”.[350]

[349] Jens Heiling, Sabine Schührer, and James L. Chan, “New Development: Towards a Grand Convergence? International Proposals for Aligning Government Budgets, Accounts and Finance Statistics,” *Public Money & Management* 33, no. 4 (July 1, 2013): 297–303.
[350] Metcalfe and Sanderson, “Is Cash Still King? Maximising the Benefits of Accrual Information in the Public Sector,” 17.

This reveals two things: first, that those driving accrual accounting diffusion do not see accrual-based financial reporting as the endgame but strive for comprehensive reforms including budgeting that put accrual accounting systems and the financial information they generate at the heart of decision-making in the public sector. Indeed, there is evidence that accrual accounting might serve as a vehicle for wider ranging NPM reforms well beyond accounting.[351] Second, it shows that even proponents seem to think that by itself, accrual financial reporting reforms cannot materialize all that is promised. For all benefits to take effect, additional, deeper, and more incisive reforms are needed. Both of those things matter in the political struggle for public sector reforms and have the potential to generate winners and losers, and resistance to accrual reforms.

This is so for two reasons. First, if financial reporting is only the first step and the ultimate goal is to put financial data at the heart of decision-making and budgeting, these reforms promise to aggravate the above-discussed redistribution of power from elected officials to accounting systems and financial managers. As previously discussed, already by themselves standards such as IPSASs can have direct impacts on policy in certain domains, for example forcing policymakers' hands in pensions policy. However, if formally tied into the budget cycle, these standards have the potential to take away part of parliament's sovereign power over the budget and steer states towards a more technocratic form of financial governance. This is not something proponents try to conceal, given they tend to view more financially driven decision making as favorable over existing, often more politicized processes.[352] Especially to parliamentarians, however, this should not be welcome news given they would stand to lose some budgetary authority to accountants and their systems. For example, examining whether the US should switch to accrual budgeting, the US General Audit Office (GAO) remarked that "changing the basis of budgeting is much more than a technical change; it represents choices among the uses and functions of the budget".[353] The function emphasized by the US Constitution is a strong ex-ante control of the budget by Congress. Because of this, the GAO deemed a full adoption of accrual budgeting inappropriate to the purposes of budgeting in the US, recommending Congress instead consider selectively introducing certain accrual measures into the process to complement existing information.[354] Studying whether accounting is moving from 'servant to

351 Christensen, "What We Might Know (But Aren't Sure) About Public-Sector Accrual Accounting," 58.
352 Metcalfe and Sanderson, "Is Cash Still King? Maximising the Benefits of Accrual Information in the Public Sector."
353 General Audit Office, "Report to the Honorable Benjamin L. Cardin, House of Representatives: Accrual Budgeting - Experiences of Other Nations and Implications for the United States," February 18, 2000, 26.
354 General Audit Office, 12 ff.

master' in relation to budgeting, Heiling and Chan conclude that "on account of its control by politicians and its role as a policy instrument, budgeting will remain as the "master" in directing public resources, with accounting playing an advisory role at best".[355] Taken together, therefore, the distributional consequences of reaping the full benefits of accruals should increase the chances of pushback.

The second reason is that if accrual reporting adoption might fall short of achieving their promises without further reforms, this would make introducing accruals even less attractive. As will be explained further below, the switch from cash to accrual accounting brings with it substantial costs for states. While some may argue that the benefits of increased transparency in reporting and potential cascading effects are enough to justify the cost, if further, even deeper and costlier reforms are deemed necessary to reap the full benefits, this might make decisions-makers take another look before committing to reforms.

This shows that Board and accrual advocates in general tend to make claims they know might not be fully delivered on simply by adopting accruals-based financial reporting. However, in their advocacy they are, for obvious reasons, not always open about this.

I.3.3. No one uses the data

As indicated above, availability of accounting data does not guarantee that it is being used. In the case of accrual accounting, there is ample evidence that, while the amount of accounting information increases with accrual reporting, the information is often not used by key decision makers, especially politicians. As one member of IPSASB remarked regarding "crumbling infrastructure": "accrual has not changed that, the information is there, but no one is looking at it. Politicians will still make decisions on other bases".[356] In one study, Christiaens and Rommel found that after introducing accrual accounting, municipalities in Belgium were reverting to cameralistics and that officials and politicians maintained "their former cameralistic way of thinking and reporting".[357] Accrual information was not actually used as a management tool and officials did not take an interest in the balance sheet and profit and loss statements. What they were most interested in was budgeting and budgetary control.[358]

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[355] Jens Heiling and James L. Chan, "From Servant to Master? On the Evolving Relationship between Accounting and Budgeting in the Public Sector," *Yearbook of Swiss Administrative Sciences* 3, no. 1 (December 31, 2012): 35.
[356] Interview 9.
[357] Christiaens and Rommel, "Accrual Accounting Reforms," 63.
[358] Christiaens and Rommel, "Accrual Accounting Reforms."

The frustration that accrual data is not demanded or drawn upon enough is echoed across the accounting community. The conclusion drawn by professional public sector accountants promoting accruals often seems to be that officials – and especially politicians – "do not really understand it"[359] and that much more education and advocacy are needed to convince key people of the benefits.[360] One German Member of the European Parliament confirmed in an interview that from the point of view of a politician, IPSASB "[has] a deficit when it comes to people actually using the financial information provided by the standard".[361] Some seem to instead hope that, if not politicians, public sector managers will catch on and utilize the data for their decision-making.[362] As will be discussed further below, however, there often is an issue at the bureaucratic level that the responsible officials are lawyers or economists less familiar with or less convinced of the importance of using accrual information for public financial decision-making.[363]

This section shows that demand for accrual standards is not automatic. It evidences the fact that, as theorized, would-be private regulators cannot rely on demand and have to build their own supply chains and strategically advocate for their work product. The IPSASB has to work hard to sell its product and create as much demand as possible. As Chapter 6 will show, the Board uses its orchestration strategies also to steer education and training, and to transmit its ideas directly into public sectors globally.

I.3.4. Limited evidence of positive impacts

As it stands, there is relatively limited evidence that promised positive impacts materialize in accrual accounting reforms around the world. This is so for a number of reasons: first, the net benefit of such reforms is often very difficult to quantify and isolate from other potential causes. Second, accounting reforms have very long time horizons and even proponents admit that decades might go by before the benefits become visible. Third, some key actors, such as Credit Rating Agencies, care much less about accrual data than accrual proponents would like, therefore casting doubt over promised borrowing-cost impacts. A key problem with all of this is that in absence of tangible and relatively immediate benefits, costly accrual reforms might be very difficult to justify for politicians – who tend to operate on short election cycles. Without clearly identifiable benefits these reforms could be argued to be a redistribution of public money

[359] Interview 11.
[360] Interview 12.
[361] Interview 14.
[362] Interview 11.
[363] Interview 12.

to the accounting profession, which stands to benefit greatly both in financial terms and in terms of relative power.

As will be shown in the discussion of adoption data later in this chapter, with accounting reforms, the devil is in the detail. If it is hard to ascertain the adoption status of many jurisdictions, it can prove near impossible to reliably quantify the impacts of a switch to accrual standards. Overall, there is a disproportionally high number of claimed benefits compared to the scarcity of hard evidence.[364] Claims that accrual accounting leads to performance increases seem to be “based essentially on impressions and opinions rather than data”.[365] While individual studies – mostly of subnational units such as municipalities or federal states – have found evidence for some efficiency increases,[366] the overall body of evidence is patchy and disjointed. There are several reasons for this. First, accrual accounting reforms are often part of wider public financial management reforms, making their effects difficult to isolate.[367] Similarly, impacts depend on the context as well as the depth and flavor of implementation which can make generalizing beyond small units difficult. Second, the benefits of accrual accounting are often diffuse and of a more qualitative nature. For example, that accrual accounting leads to ‘better information’ and ‘more transparency’ are key claims of proponents. However, part of the debate around accrual standards is whether this type of information really is appropriate to public sector uses; in other words, what counts as ‘better information’ is very much in the eye of the beholder. The same is true for the type and quality of transparency.[368] By themselves, neither information nor transparency have measurable impacts – they need to be acted upon. As one accountant reported, when discussing accruals potentially providing ‘better information’, “I got asked to do a cost-benefit analysis when I had to deliver whole of government accounts – it is virtually impossible. What you can say is that since the numbers are big even small improvements matter”.[369] Many interlocutors felt similarly, claiming that they had a strong sense from experience that there is an impact – but did not have any hard evidence to point to.[370]

[364] Christensen, “What We Might Know (But Aren’t Sure) About Public-Sector Accrual Accounting.”
[365] Tyrone M Carlin, “Debating the Impact of Accrual Accounting and Reporting in the Public Sector,” 2005, 316.
[366] H W Lampe, “Does Accrual Accounting Improve Municipalities’ Efficiency? Evidence from Germany,” n.d., 16.
[367] Interview 1.
[368] Carlin, “Debating the Impact of Accrual Accounting and Reporting in the Public Sector.”
[369] Interview 12.
[370] Interview 1. Interview 9. Interview 12.

Beyond benefits being diffuse and hard to quantify, they are also said to only materialize in the long run and in the aggregate. This is in part because for changes to take effect, a cultural change is often needed.[371] While accounting information may be available soon after switching to accruals, it can take time for those information flows to be usefully integrated into other systems and relied upon for decision-making. For example, as shown above, politicians tend to not ask for the information even if it is available because they are used to cash data.[372] One interlocutor from Canada explained that:

> "*Standard-setting in accounting is a long-term thing. Canada does accrual since 2000. If someone asks me how it is going, I'm saying ask me in 20 years – give it 50 years. It takes some time for it to really catch on and have officials that really understand it, which is not the case now. You also have to consider the capacity and willingness of these organizations – governments local and central – to change."*[373]

Many benefits are also only realized in the aggregate. For example, comparability between countries in the EU may bring with it certain benefits on a supranational level. However, individual member states' balance sheets are set to look worse around the time of the switch because, among other things, accrual standards tend to classify social benefits as liabilities.[374]

Further extending the time-horizon of potential positive impacts is the fact that accounting reforms by themselves can take upwards of a decade. In their study of IPSAS diffusion drawing on OECD and IFAC data, Polzer and others reveal that even for many developed countries, the transition periods to accrual accounting have been lengthy. While the data is patchy, their study shows that for many countries this process has taken a decade or more, among those countries are Australia (10 years), Belgium (11 years), the UK (10 years), Sweden (15 years), and Spain (25 years).[375] These times required for a complete transition to accrual standards, underline both the long time horizons required for benefits to materialize, as well as the potential difficulties less developed economies might face in implementing such reforms.

Finally, one oft-promised impact of accrual financial reports is a reduction in borrowing costs and easier access to capital markets and investments. However, evidence for this remains

[371] Interview 12. Interview 11.
[372] Interview 14. Interview 9.
[373] Interview 11.
[374] Interview 5.
[375] Tobias Polzer, Levi Gårseth-Nesbakk, and Pawan Adhikari, "'Does Your Walk Match Your Talk?' Analyzing IPSASs Diffusion in Developing and Developed Countries," *International Journal of Public Sector Management* 33, no. 2/3 (January 1, 2019): 124 f.

limited and mostly anecdotal.[376] It is probable that this type of benefit is more likely to materialize for (and more relevant to) developing countries who seek improved access to capital markets.[377] What seems certain at this point is that there is little to no demand for accrual data from Credit Rating Agencies – who could have a substantial impact on the relation between accrual standards and borrowing costs. Getting Credit Rating Agencies to ask for accrual accounting information would be a big win for IPSASB as it would likely result in massive pressure to adopt accrual standards. Engagement with Rating Agencies has been part of the Board's strategy.[378] However, many Board members report – at times with frustration – that there is no interest from these agencies.[379] As one Head of Global Sovereign Ratings at a credit ratings agency shared in an interview, they always welcome more information but do not ask for it and do not rely on it to compile their ratings.[380]

In conclusion, the benefits of accrual accounting reforms are diffuse, hard to measure, and often distant. This is not to argue that accrual reforms do not have an impact. As shown earlier in the chapter, accrual standards can have quite significant and immediate impacts on policymaking and have distributional consequences. However, many of the promised benefits are of a relatively diffuse and qualitative nature, and are less easily made visible than some of the unintended consequences and costs. This makes it more difficult for accrual reformers to convince policymakers to make the costly switch and, with it, relinquish discretion over fiscal policy.

I.3.5. Switching costs are high and immediate

These diffuse, distant, and often invisible benefits are contrasted with very high switching costs that are immediate, as well as concrete and visible. Switching costs include the costs of putting in place all relevant internal policies and procedures required for a working accounting system, as well as potentially significant costs for re-training personnel and updating or completely replacing resource-planning IT systems.[381] The exact figures will vary widely between governments depending on existing accounting systems, size and complexity of the

[376] Interview 1. Interview 5. Interview 11.
[377] Interview 24.
[378] Interview 12.
[379] Interview 9. Interview 30. Interview 31. Interview 19. Interview 24. Interview 27.
[380] Interview 26.
[381] PwC, "Collection of Information Related to the Potential Impact, Including Costs, of Implementing Accrual Accounting in the Public Sector and Technical Analysis of the Suitability of Individual IPSAS Standards," August 1, 2014, 56 ff.

government, number of staff to be retrained and other factors.[382] Estimates by the European Commission predict switching costs of between 0.02% to 0.1% of GDP.[383] For a large economy such as Germany, this would amount to over $8bn.[384] For comparison, a 2014 PwC study estimates the cost for Germany to be as high as €2.4bn (around $3.2bn at the time of the study). The German Court of Auditors expects costs to "considerably exceed the estimates given".[385]

These costs would have to be suffered by the switching economy in a relatively immediate time frame, and they do not include ongoing maintenance costs of the systems.[386] It is therefore no surprise that switching costs are often used by critics, including the German Court of Auditors, to argue against a switch to accruals; these arguments are often combined with those about the inappropriateness of these standards to the public sector and unclear benefits.[387] From the perspective of a politician who has to operate in election cycles and has a short time horizon, the switch to accrual might therefore be a hard sell. Given the high visibility of immediate costs (including aforementioned unintended consequences) and the relative invisibility of diffuse and somewhat distant benefits, accrual reforms can be in danger of seeming like a reallocation of resources to the accounting profession without clear indication that promised benefits over existing systems will ever materialize.

I.4 Unwanted transparency and power shifts

So far, this chapter has shown that the adoption of accrual standards can have both direct and indirect unintended policy consequences, and that from the perspective of legislators asked to adopt these standards, they might appear to have uncertain benefits coupled with certain and high costs. However, even if accrual accounting was certain to have the exact benefits its advocates promise, three additional factors would lead to distributional consequences creating winners and losers. First, while transparency is one of the main promises of accrual standards, it is far from obvious why governments would want more transparency around its financials

[382] see e.g. PwC, 73 ff.
[383] European Commission, "Towards Implementing Harmonised Public Sector Accounting Standards in Members States: The Suitability of IPSAS for the Member States," 2013, 7.
[384] Using the 2021 GDP of $4.2tn as a base. Given the Commission's upper threshold estimate of 0.1% of GDP, costs could theoretically rise to a staggering $42bn. See "GDP (Current US$) - Germany," World Bank Website, accessed October 7, 2022.
[385] Bundesrechnungshof, "Special Report Pursuant to Article 99 Federal Budget Code on the Intended Implementation of Harmonised European Public Sector Accounting Standards (EPSAS) in the Member States of the European Union," 21.
[386] PwC, "Collection of Information Related to the Potential Impact, Including Costs, of Implementing Accrual Accounting in the Public Sector and Technical Analysis of the Suitability of Individual IPSAS Standards."
[387] e.g. Bundesrechnungshof, "Special Report Pursuant to Article 99 Federal Budget Code on the Intended Implementation of Harmonised European Public Sector Accounting Standards (EPSAS) in the Member States of the European Union."

(I.4.1). Second, accrual standards, if properly functioning and fully integrated into public sector financial management, will lead to powershifts both within the bureaucracy and between the executive and legislative (I.4.2).

As argued above, exploring the creation of winners and losers makes visible three things: first, accounting standards such as IPSASs matter. They have consequences for policy and for power-distributions within states. Second, the creation of losers (some powerful) points to the potential for resistance to adoption of IPSASs. Third, identifying the winners points us to those actors that might be more easily enlisted by the Board to do its bidding.

I.4.1. Unwanted transparency

Besides improved decision-making through more and higher quality information, one of the key benefits of accrual-based financial reporting standards such as IPSASs is said to be increased transparency. Independent of whether one agrees that the information produced by these standards is needed for public financial management, it is without doubt that accrual accounting is more informative than cash accounting. There would be major differences especially in terms of measuring assets and liabilities. This is seen as beneficial for the management of these assets and liabilities. Additionally, of course, this fuller picture of a government's financial position would also be more informative to users other than financial managers – namely citizens, whose money is ultimately being managed, the government's creditors, as well as supra- and international organizations.

While more transparency around public finances seems desirable from the point of view of those other users, it is far from clear that governments should feel the same way about transparency. As explained above, a switch to accrual accounting standards tends to make governments' balance sheets look much worse at least in the short term – mainly due to the recognition of additional liabilities from social benefits obligations. Assuming that voters and potential lenders actually looked at accrual statements and made decisions based on them, this type of additional transparency would put those in power at a disadvantage. It would therefore not be far-fetched to assume that governments might not want this type of transparency unless it would help them make a previous government look bad – which might explain why such accounting reforms often happen after a change in government.[388]

[388] Interview 12.

Furthermore, if accrual standards actually delivered on the promise of severely limiting the potential for creative accounting (as established, this is not necessarily the case), this would be one more reason for governments not to want this type of reform. This is because creative accounting can be a powerful tool in the hands of governments intending to seem fiscally prudent while still delivering on promised programs. The New Zealand Superannuation Fund (NZSF) discussed earlier is one such example where – ironically under accrual accounting – the government lowered its net debt by amassing cash in the NZSF without reporting the total of the mounting pension liabilities that were used to justify the NZSF's inception in the first place.[389]

In this context it is important to keep in mind that, as discussed above, even governments that are 'on cash' tend to have at their disposal internal financial information and control systems that enable them to have a good overview of their finances. As in corporations, public financial managers have more financial information available to them than those outside the organization. Aside from specific scenarios where it is politically opportune or forced upon them, it is by no means obvious that governments should want more of their financial information to be public and transparent.[390] A former IPSASB chairman reported that governments not being "all that keen on transparency"[391] was actually a hurdle in the debate around accruals.

I.4.2. Shifting power distributions

The introduction of accrual accounting standards, and with them a greater emphasis on financially driven decision making, can lead to significant redistributions of power and influence within the state, creating winners and losers. These distributional consequences bring with them an increased likelihood of resistance to such reform by potential losers and ay facilitate the enlistment of potential winners by the IPSASB. Two power shifts are elaborated here. First, as has already shone through in the above, accrual accounting can reduce the discretion of policymakers and curtail the budgetary sovereignty of parliament. Second, beyond this, switching to accrual accounting and putting financial data at the heart of decision-making also leads to powershifts within the bureaucracy: for one, power shifts towards the accounting functions in ministries of finance and treasuries. Additionally, career opportunity and influence

389 Newberry, "Whole of Government Accounting in New Zealand."
390 Gwenda Jensen, "Financial Transparency's Role with Respect to Financial Sustainability: How International Public Sector Accounting Standards Can Help Governments to Keep Their Promises," 2011.
391 Interview 2.

will flow towards professional accountants in government and partially away from economists or lawyers.

At multiple points in the above discussion, it has already been shown that by adopting accrual accounting, policymakers, especially elected officials entrusted with custodianship of public money, curtail their own discretion in financial decision-making. Proponents of accrual standards tend to see this in a positive light: financial decisions are 'depoliticized' and brought into the realm of prudent, data-driven financial management, thus decreasing leeway for corruption and mismanagement. However, allocation and oversight of the budget are sovereign rights of parliament for a reason. Putting the ultimate say over public spending into the hands of elected politicians is a fundamental component of democratic legitimacy. Therefore, the less optimistic view of the more technocratic system favored by accrual proponents is that parliaments delegate away part of their sovereignty when adopting accrual reforms. One concrete example for this comes from New Zealand, an early adopter and leader in public sector accrual accounting. With the introduction of accrual accounting at the end of the 1980s, parliamentary ex-ante control and ex-post oversight were eroded, and substantial powers shifted to the executive, in particular to the Minister of Finance and the Treasury who, acting as a "corporate-style financial controller",[392] gained vast powers over borrowing, lending, investing, and debt management.[393] Commercial-bank-inspired sovereign debt management strategies and increasing financialization reported on earlier in this chapter are one consequence of this.[394] The US General Audit Office, as said earlier, recommended for the same reasons – an erosion of Congress' ex-ante control over the budget in favor of a greater output orientation – that accrual budgeting not be directly adopted in the US.[395] Similarly, in Germany, an attempt to introduce reforms towards accrual accounting and budgeting failed because the German parliament "feared that the change from an input to an output orientation […] would result in a loss of their control over the budget and the government's finances".[396]

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392 Susan Newberry, "The Use of Accrual Accounting in New Zealand's Central Government: Second Thoughts," *Accounting, Economics and Law* 4, no. 3 (January 1, 2014): 288.
393 Newberry, "The Use of Accrual Accounting in New Zealand's Central Government"; Susan Newberry and June Pallot, "A Wolf in Sheep's Clothing? Wider Consequences of the Financial Management System of the New Zealand Central Government," 2005, 16.
394 Newberry, "The Use of Accrual Accounting in New Zealand's Central Government."
395 General Audit Office, "Report to the Honorable Benjamin L. Cardin, House of Representatives: Accrual Budgeting - Experiences of Other Nations and Implications for the United States."
396 Rowan Jones and Klaus Lüder, "The Federal Government of Germany's Circumspection Concerning Accrual Budgeting and Accounting," *Public Money & Management* 31, no. 4 (July 1, 2011): 269.

Given the consequences for power shifts between legislative and executive, and in view of these concrete examples, we should expect widespread skepticism and resistance by policymakers towards accrual reforms. At the same time, this redistribution of power is not lossless. It is not simply that discretion for financial decisions is transferred from parliament to the executive. While parliament's control over public spending could certainly be diminished, financial managers in the executive could in many cases also see their hands tied by financial data. The devil is in the detail, but as mentioned earlier, depending on the depth of implementation as well as on how well the accrual systems work, the executive's discretion could in parts be constrained by transparency as well as by direct steering effects.

Finally, within the executive, we can also expect power and influence to be partially redistributed by the transition to accrual accounting. Professions such as accounting and economics claim jurisdiction over a specific field and to the production and application of expertise relating to that field.[397] Once established, they tend to work to expand and entrench their jurisdiction and influence, one example of this being the way economic expertise made itself essential to policymaking as well as running the private economy.[398] In their efforts to expand their empires, professions tend to battle with adjacent ones over jurisdictional claims – even if much of this is not necessarily explicit but implicit and a result of differently socialized professionals each acting according to what they have come to believe by way of their socialization.[399] The diffusion of accrual accounting standards can be read through the lens of this inter-professional battle over jurisdiction to reveal the distributional implications.

Even in Anglo-Saxon countries where accounting professions tends to be comparatively strong, economists and lawyers dominate many areas of policymaking and policy advice including in public financial management. Studies have elaborated on how public sector accountants felt threatened by lawyers and economists and how the jurisdictional expansion of their profession and hence their ideas and policy innovations were intimately linked to the struggle with other professions within the bureaucracy.[400] In Australia, accountants managed to gain a foothold in

[397] Andrew Delano Abbott, *The System of Professions: An Essay on the Division of Expert Labor* (Chicago ; London: University of Chicago Press, 1988).

[398] Marion Fourcade, *Economists and Societies: Discipline and Profession in the United States, Britain, and France, 1890s to 1990s*, Princeton Studies in Cultural Sociology (Princeton: Princeton University Press, 2009); Christensen, *The Power of Economists within the State*.

[399] This is one of the mechanisms of institutional isomorphism as described by DiMaggio and Powell, "The Iron Cage Revisited."

[400] Mark Christensen and Lee Parker, "Using Ideas to Advance Professions: Public Sector Accrual Accounting," *Financial Accountability & Management* 26, no. 3 (August 2010): 246–66; Bjorn Brorstrom, "Accrual Accounting, Politics and Politicians," *Financial Accountability & Management* 14, no. 4 (November 1998): 319.

government after the establishment of accounting policy branches and audit commissions across the Australian state governments, as well as cooperations between Treasuries and Ministries of Finance and Accounting Standards Boards. This put accountants in a position to utilize windows of opportunity to push accrual standards when the time came.[401] As has been argued, the move towards accrual standards was in itself a strategy used by accountants to counter the power of economists. The contest between accountants and economists is particularly visible in this case also because at the time of widespread accrual adoption in Australia, the main competitor was the International Monetary Fund's (IMF) Government Finance Statistics very familiar to, and promoted by, economists.[402]

This issue will be picked up again in Chapter 6, which uncovers how the IPSASB is using the power of professions to its advantage in building strong domestic networks in countries to aid the diffusion of its standards. A shift towards accruals favors accounting expertise in government. This shift would have negative distributional consequences for those whose expertise currently dominates public financial decision-making. Depending on the relative power of accountants in government, this can result in potentially significant resistance to accrual accounting reforms by economists and lawyers especially in Finance Ministries and Treasuries whose power and influence stand to decrease as accounting data become more central to decision-making. This likely produces not only explicit resistance by economists fighting for influence, but also a more implicit resistance or inertia borne out of the fact that non-accountants are less familiar with accrual accounting as well as its potential benefits. Inversely, these impacts can make accounting functions within Treasuries likely targets for enlistment by the IPSASB as they stand to gain relative power. Many accrual advocates report that they were often confronted with economists with decision-making positions who were simply unfamiliar with accruals, which made them harder to convince.[403] As one interlocutor explained: "If you look at ministers as users [of financial information], who advises ministers? Policy generalists, mainly economists. […] There is a cultural thing here: Economists vs accountants. There has to be a culture change".[404]

The above has shown that accrual standards such as IPSASs can have both intended and unintended distributional consequences affecting the discretion of policymakers: these

[401] Christine Ryan, "The Introduction of Accrual Reporting Policy in the Australian Public Sector An Agenda Setting Explanation," *Accounting, Auditing & Accountability Journal* 11, no. 5 (1998): 518–39.
[402] Christensen and Parker, "Using Ideas to Advance Professions."
[403] Interview 2. Interview 21.
[404] Interview 12.

standards potentially curtail the sovereignty and control of parliament over the government's budget and spending, shift financial risk onto labor, and cost vast sums of money without proven benefits, while massively benefiting private accounting firms. This is not to say that accrual standards are not technically superior. From a purely accounting perspective, accrual indisputably offers more information than cash. However, using these types of standards to "depoliticize" public financial management is a political act itself, and will create winners and losers, potentially triggering resistance from those actors that are better served by existing systems.

The question of which type of accounting information is necessary and appropriate to the public sector, therefore, depends on the political objectives of those involved. It may well be in the public interest to curtail the discretion of policymakers when it comes to public money. At the same time, the allocation of public funds is and always will be political – it is by definition – which is why elected officials, rather than accounting systems, are traditionally given the final say in these matters. A more technocratic system is itself a political end that transfers power to those designing and maintaining such systems.

Given the intended and unintended distributional consequences and problems of accrual accounting reforms, elaborated herein, states and actors within them have plenty of reasons to resist the type of standards promoted by the IPSASB. Parliaments and policymakers are even less likely to cede such sovereignty and discretion over government financial reporting to a private actor, of which IPSASB is one. After all, IPSASs are only one potential flavor of accrual standards, derived from private sector IFRSs and complemented by public-sector specific standards. But as the next section will demonstrate through analysis of IPSASs diffusion, these private standards have indeed become focal in the regulation of government financial reporting.

II. The Surprising Spread of IPSASs

The following part is to give an overview of the global diffusion of IPSASs. The first section (II.1) will offer a discussion of the approach to data collection and availability of data relating to the diffusion and adoption of IPSASs. Due to the scope of diffusion to around 180 jurisdictions globally, as well as the complexities around measuring and accessing information about the exact state of adoption and implementation in each jurisdiction, this study adopts and combines two databases compiled by the International Federation of Accountants (IFAC). The first section offers justification of this decision and address potential concerns around accuracy and bias, since IFAC is the IPSASB's parent organization. The second section (II.2) will offer descriptions and descriptive statistics of each of the two databases, as well as details about their provenance. The third and final section (II.3) will discuss the databases in tandem and the status of IPSASs diffusion and influence around the world. This will demonstrate that despite creating winners as well as potentially powerful losers, IPSASs have been extremely successful.

II.1. Available data

To assess the global influence of the IPSAB's standards, one would ideally have data about the exact status and method of adoption, as well as the status and depth of implementation of IPSASs in all jurisdictions around the world. Arriving at such a complete dataset, however, would prove incredibly challenging for a number of reasons. First, who has the authority to set or designate accounting standards for adoption, and where such a decision would be codified, differs from jurisdiction to jurisdiction. This challenge is enhanced by the predictable accessibility hurdles of documentation not being digitally accessible via the internet and only existing in local languages, rather than in English. Second, the path from a first decision to adopt a set of standards to the beginning of implementation, as well as from the beginning of implementation to full compliance, tends to be lengthy and complex. Getting a full picture would require tracing this process to the current day for each jurisdiction. Third, judging the exact status of implementation and ultimately compliance with IPSASs is a complex endeavor that necessitates a full gap analysis requiring extensive accounting expertise and familiarity with the respective local environment. This sort of detailed knowledge is not readily available to anyone, including leading experts and practitioners in the field.

Fortunately, this sort of ground up data collection is not required to understand the extent to which the IBSASB has become the focal standard setter of government accounting and financial reporting globally. Two extensive and comprehensive datasets on the diffusion of IPSASs globally are provided by IFAC. This section introduces these two datasets and addresses concerns around bias that might come with use of diffusion data from the standards setting body itself.

Studies dealing with the adoption of IPSASs tend to either do so on a single case study basis[405] or by limited cross-country comparisons[406] using qualitative data. In a systematic literature review of a total sample of 80 studies examining IPSASs adoption, Schmidthuber and others find that around half look at a single case with the remaining half being cross-country studies.[407] Polzer and others find similar results in their literature review of IPSASs adoption in developing countries: the majority of studies focused on single cases, while the rest were limited country comparisons of often two countries, with larger scale studies forming the exception.[408] However, even single case studies exploring the mechanisms of adoption often do not offer in-depth discussions of adoption status and the exact quality of adoption and implementation.[409]

Beyond these single case studies or very small-*n* comparisons, a number of larger comparative studies have been conducted based on survey data. These studies tend to focus on specific regions. For example, Christiaens and others study varying levels of IPSAS adoption in Europe based on an expert survey (an academic, a professional public accountant, and a consultant per jurisdiction) of a total of 21 jurisdictions including several subnational units in countries with federal systems, receiving 19 responses.[410] This study was later expanded to the global level by surveying 81 countries in the same manner, resulting in data about 59 jurisdictions total.[411] Similarly, Brusca and Martinez sent questionnaires to central governments of 28 European and

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405 E.g.: Daniela Argento, Peeter Peda, and Giuseppe Grossi, "The Enabling Role of Institutional Entrepreneurs in the Adoption of IPSAS within a Transitional Economy: The Case of Estonia," *Public Administration and Development* 38, no. 1 (February 1, 2018): 39–49; Rachel Baskerville and Giuseppe Grossi, "Glocalization of Accounting Standards: Observations on Neo-Institutionalism of IPSAS," *Public Money & Management* 39, no. 2 (February 17, 2019): 95–103; Evangelos Chytis et al., "Accounting Reform and IPSAS Adoption in Greece," *European Research Studies Journal* 23, no. 4 (November 1, 2020): 165–84; Miraj Javed and Wang Zhuquan, "Analysis of Accounting Reforms in the Public Sector of Pakistan and Adoption of Cash Basis IPSAS," *Universal Journal of Accounting and Finance* 6, no. 2 (May 2018): 47–53; Laura Sour, "IPSAS and Government Accounting Reform in Mexico," *International Journal of Public Sector Performance Management* 2, no. 1 (2012): 5.

406 E.g. Susana Jorge, Isabel Brusca, and Sónia P. Nogueira, "Translating IPSAS into National Standards: An Illustrative Comparison between Spain and Portugal," *Journal of Comparative Policy Analysis: Research and Practice* 21, no. 5 (October 20, 2019): 445–62; Isabel Brusca, Mauricio Gómez-villegas, and Vicente Montesinos, "Public Financial Management Reforms: The Role of Ipsas in Latin-America," *Public Administration & Development* 36, no. 1 (February 2016): 51–64.

407 Lisa Schmidthuber, Dennis Hilgers, and Sebastian Hofmann, "International Public Sector Accounting Standards (IPSASs): A Systematic Literature Review and Future Research Agenda," *Financial Accountability & Management* n/a, no. n/a (2020): 1–24.

408 Tobias Polzer et al., "Adoption of the International Public Sector Accounting Standards in Emerging Economies and Low-Income Countries: A Structured Literature Review," *Journal of Public Budgeting, Accounting & Financial Management*, September 6, 2021.

409 See e.g. Argento, Peda, and Grossi, "The Enabling Role of Institutional Entrepreneurs in the Adoption of IPSAS within a Transitional Economy."

410 Johan Christiaens, Brecht Reyniers, and Caroline Rollé, "Impact of IPSAS on Reforming Governmental Financial Information Systems: A Comparative Study," *International Review of Administrative Sciences* 76, no. 3 (September 1, 2010): 537–54.

411 Johan Christiaens et al., "The Effect of IPSAS on Reforming Governmental Financial Reporting: An International Comparison," *International Review of Administrative Sciences* 81, no. 1 (March 2015): 158–77.

23 American countries, resulting in responses for a total of 37 countries (a bit over a quarter constituted responses from academics, where central governments were unresponsive).[412] In 2017, the OECD in collaboration with IFAC conducted a survey of OECD countries, resulting in more in-depth qualitative data on accrual practices in those jurisdictions.[413] In turn, this OECD/IFAC study subsequently became a main source or complement for adoption studies.[414]

Studies attempting to identify larger adoption patterns are few and tend to be – like much of the existing body of research on the IPSASB – published in highly specialized or niche journals. However, the large-*n*-studies that do exist commonly use IFAC-provided data as their source or starting point[415], at times complementing or qualifying this data using publications by accounting firms[416] or other sources not always well documented.[417] These studies, attempting to include as many countries as possible, count about half of all jurisdictions studies as adopters, ranging from 54[418] through 84[419] to 88[420], depending on how many countries were included after dropping cases for missing data or other reasons.

For this study, data provided by IFAC also provided the starting point, considering the organization likely hosts the two most extensive, consistent, and most complete datasets concerning adoption of IPSASs and other IFAC standards in the world. Taken together, these datasets provide the most feasible way to get a good sense of the extent to which IPSASs have diffused globally. Cross-checked and validated by further desk research, they demonstrate that the Board has risen to being the focal standard setter in government accounting and financial

[412] Isabel Brusca and Juan Carlos Martínez, “Adopting International Public Sector Accounting Standards: A Challenge for Modernizing and Harmonizing Public Sector Accounting,” *International Review of Administrative Sciences* 82, no. 4 (Dezember 2016): 724–44.
[413] OECD and International Federation of Accountants, *Accrual Practices and Reform Experiences in OECD Countries* (OECD, 2017).
[414] See e.g. Beatriz Cuadrado-Ballesteros and Marco Bisogno, “Public Sector Accounting Reforms and the Quality of Governance,” *Public Money & Management* 41, no. 2 (February 17, 2021): 107–17; Polzer, Gårseth-Nesbakk, and Adhikari, ““Does Your Walk Match Your Talk?”
[415] Vincent Tawiah, “The Effect of IPSAS Adoption on Governance Quality: Evidence from Developing and Developed Countries,” *Public Organization Review*, April 6, 2022; Amel Amiri and Sarra Elleuch Hamza, “The Transition to IPSAS Standards: The Extent of Adoption and the Influence of Institutional, Contingency and Economic Network Factors,” Journal of Accounting and Management Information Systems 19, no. 2 (June 30, 2020): 215–51.
[416] Yosra Mnif Sellami and Yosra Gafsi, “Institutional and Economic Factors Affecting the Adoption of International Public Sector Accounting Standards,” *International Journal of Public Administration* 42, no. 2 (January 25, 2019): 119–31.
[417] Donia Ben Amor and Salma Damak Ayadi, “The Profile of IPSAS-Adopters,” *Journal of Accounting and Management Information Systems* 18, no. 2 (June 1, 2019): 262–82.
[418] Mnif Sellami and Gafsi, “Institutional and Economic Factors Affecting the Adoption of International Public Sector Accounting Standards.”
[419] Amiri and Hamza, “The Transition to IPSAS Standards.”
[420] Ben Amor and Damak Ayadi, “The Profile of IPSAS-Adopters.”

reporting. The following section will describe and discuss the datasets, data collection, and key take-aways.

II.2. Adoption data: descriptive statistics

The first database used captures the adoption status of all standards set by IFAC's various boards, as well as of IFRSs set by the IASB, in those countries with IFAC member bodies. At present, this database contains information on the adoption status of six different standards across 136 jurisdictions throughout the world.[421] The data is based on the regular Statement of Membership Obligations (SMO) Action Plan that each IFAC member body is required to submit in accordance with IFAC's Member Compliance Program.[422] As explained in the previous chapter, SMOs compel each member organization to work towards adoption of IFAC-issued standards in its respective jurisdiction. SMO Action Plans, submitted at regular intervals of around one to three years, capture progress made towards adoption.

These Action Plans contain a short report on the history and adoption status of each standard, as well as information on which organization has the authority to adopt standards, and on the role the respective member body plays in regard to standard setting nationally. Additionally, individual projects and actions taken and planned to encourage adoption in the respective jurisdiction are listed and their status reported. Taken together, IFAC receives regular reports from all 180 member bodies in these 136 jurisdictions. For jurisdictions where multiple member bodies exist, there are multiple reports. For example, the United Kingdom as a country with a strong accounting profession contains a total of seven IFAC member bodies, each of which files its own SMO Action Plan on a regular basis. All Action Plans are, together with supporting sources such as legislation, published alongside the database, thereby providing a relatively dense and transparent set of adoption data that benefits from the local expertise of each individual IFAC member body.

Based on the information provided by members through their Action Plans, IFAC then codes the adoption data for each standard into three categories. For IPSASs of interest here, this is done according to the criteria presented in *Table 4.1*. As can be seen, IPSASs are only counted as "adopted" when the up-to-date accrual basis version of the standards is being used for the entire public sector. All other cases where certain standards are excepted, earlier versions of the standards are used, or where standards are not applied to the entire public sector, IFAC counts

[421] "Global Impact Map," IFAC, July 26, 2018.
[422] International Federation of Accountants, "Statements of Membership Obligations (SMOs) 1-7 (Revised)."

as cases of “partial adoption”. The same is true for when cash-basis IPSASs are used, even when those standards are adopted by the entire public sector without modification. This classification is strict even by IFAC’s own standards, as set out in the SMOs which define adoption of IPSASs as

> *“[…] the decision that international standards are appropriate for use in specific national financial reporting environments and with the actions necessary to realize those decisions, including incorporation into national requirements or requiring the use of international standards through law. Adoption may include a process to review draft international standards, translation, public exposure of proposed standards, approval, incorporation into national requirements as necessary, and promulgation of final standards, and, where applicable, a convergence process to eliminate or minimize differences between international and national standards*”.[423]

Because of the strictness of the coding mechanism, the resulting dataset likely measures as adopters mostly those countries that have adopted and are at an advanced stage of implementation. For the purposes of this thesis, which is more concerned with adoption as the decision to draw on IPSASs as the focal public sector financial reporting standards, most instances of “partial adoption” in this dataset would constitute adoptions. This will become even clearer once the second, more fine-grained dataset is included in the analysis. *Figure 4.1* presents an overview of IFAC’s Adoption Status dataset with counts of adoptions and partial adoptions included in one column.[424] This provides a first indication that the majority of the 136 jurisdictions included have taken steps towards IPSASs adoption.

[423] International Federation of Accountants, 29.
[424] For this, data was hand-coded assigning “non-adoption” the value “0”, “partial adoption” the value “1”, and “adoption” the value “2”.

Adoption status	Criterion
Adopted	“accrual basis IPSAS in their entirety in effect as of the time of the assessment have been adopted for application by all public sector entities”[425]
Partially Adopted	“an earlier version of IPSAS has been adopted for application by all public sector entities. *or* IPSAS in their entirety in effect as of the time of the assessment have been adopted for selected types of public sector entities. *or* Cash-basis IPSAS have been adopted. *or* Not all currently effective IPSAS have been adopted"[426]
Not adopted	All other cases.

Table 4.1*: IFAC coding criteria.*

A second, more extensive and fine-grained dataset is IFAC’s Accountability Index. Published by IFAC and the Chartered Institute of Public Finance and Accountancy (CIPFA) for the first time in 2018[427], the accountability index provides survey-based data for a total of 166 jurisdictions, including those that do not host any IFAC member bodies.[428] The online database and the corresponding survey status reports do not elaborate on the details of data collection or methodology.[429] For this reason, an IPSASB staff member involved in data collection was consulted via email and parts of the raw data tables were examined.[430] Survey respondents are central government or other agencies responsible for national standard setting or accounting, such as Ministries of Finance, Treasury Departments, and National Standard Setters. They each provide information on the type of financial reporting standard applied, the accounting basis (accrual or cash), information on which parts of the public sector use these standards, as well

[425] “Methodology for Assessing Adoption,” IFAC Website, accessed October 7, 2022.
[426] “Methodology for Assessing Adoption.”
[427] IFAC and CIPFA, “International Public Sector Financial Accountability Index: 2018Status Report,” 2018.
[428] Data is accessible on the IFAC website: https://www.ifac.org/what-we-do/global-impact-map/accountability
[429] IFAC and CIPFA, “International Public Sector Financial Accountability Index: 2018Status Report”; IFAC and CIPFA, “International Public Sector Financial Accountability Index: 2021 Status Report,” June 2021.
[430] Data table with the author.

as a host of other information (such as what is part of the balance sheets) and data (such as links to audit reports).

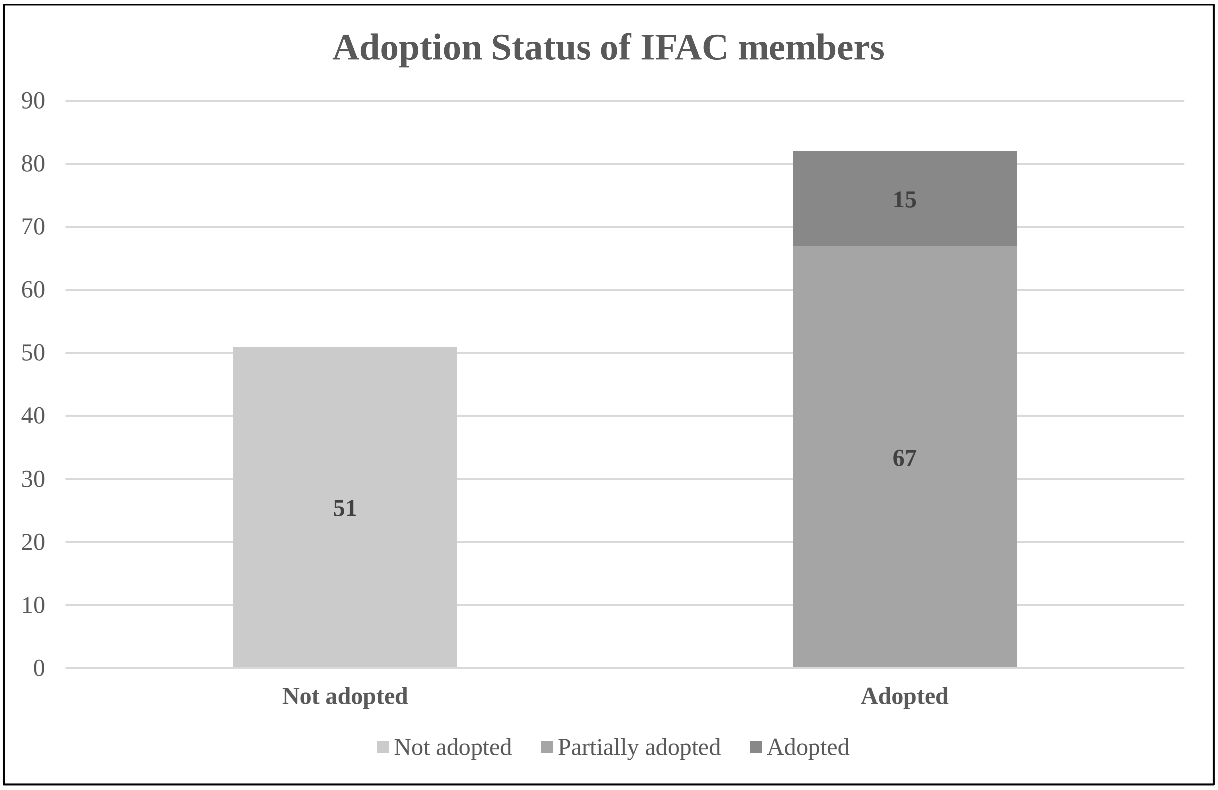

Figure 4.1: *Overview of IPSASs adoption status.*

The resulting Accountability Index dataset captures the financial reporting basis ("no data yet", "cash", "partial accrual", "accrual") as well as the adopted financial reporting framework as of 2020. The reporting framework is represented in six categories: "no data yet", "national standards: other", "national standards based on IFRS", "national standards with reference to IPSAS", "IPSAS modified for the local context", and "IPSAS with no modifications". For both the reporting basis and the reporting framework, a forecast of the 2025 status is also included. This data therefore provides a more precise and fine-grained overview of IPSAS adoption. *Figure 4.2* presents an overview of the dataset by type of adoption and accounting basis.[431]

[431] For this, data was hand-coded as follows: "no data yet"=0, "national standards: other"=1, "national standards based on IFRS"=2, "national standards with reference to IPSAS"=3, "IPSAS modified for the local context"==4, and "IPSAS with no modifications"=5.

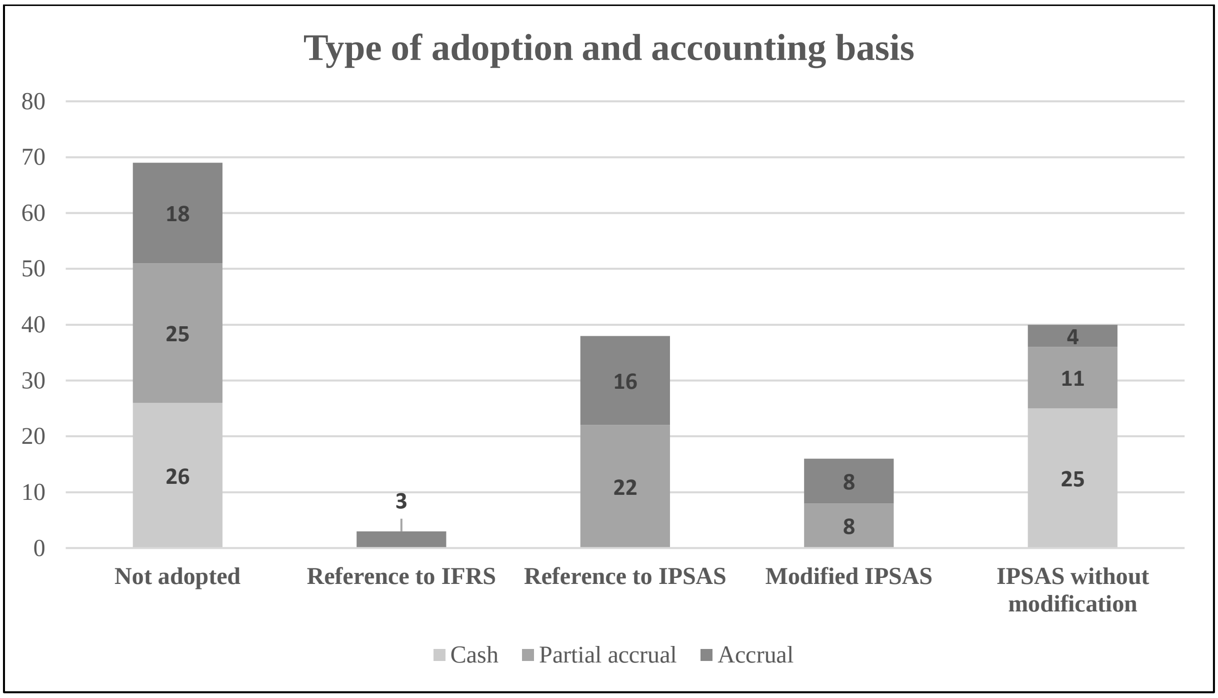

Figure 4.2: *Accountability Index dataset by type of adoption and dataset.*

As can be seen from the overview in *Figure 4.2*, the majority (94) of all 166 jurisdictions for which there is data either adopt IPSASs outright or have set their national standards in reference to IPSASs. A further three jurisdictions adopt IFRS on which IPSASs are based. Out of those three jurisdictions, the UK and Jersey actually use IPSASs as a second layer of standards and in order to interpret IFRSs, placing them among the jurisdictions most in compliance with IPSASs.[432] Australia as the third country adopting IFRS has considered (and rejected for the time being) moving to IPSAS. Because of the similarity of standards Australia, just like the UK, is largely compliant with IPSASs and supplements IFRSs with IPSAS guidance where necessary. Like other nations with strong accrual tradition, the country and its profession are also very involved in the Board's work.[433] *Figure 4.3* compares the number of countries in the dataset that use national standards with those that have significantly moved towards international standards set by private standard setters. As can be seen from the data, a majority of jurisdictions have taken steps towards adopting international standards, in particular IPSASs. While just under half of jurisdictions still do not officially make use of IPSASs, it is important to note that there is no other, competing international standard. The competition for IPSASs at this point consists only in various national standards and accounting traditions, as well as to a

[432] Interview 12.

[433] Müller-Marqués Berger, *IPSAS Explained*, 20; Australian Accounting Standards Board, "The AASB's Approach to International Public Sector Accounting Standards," October 2019, 13.

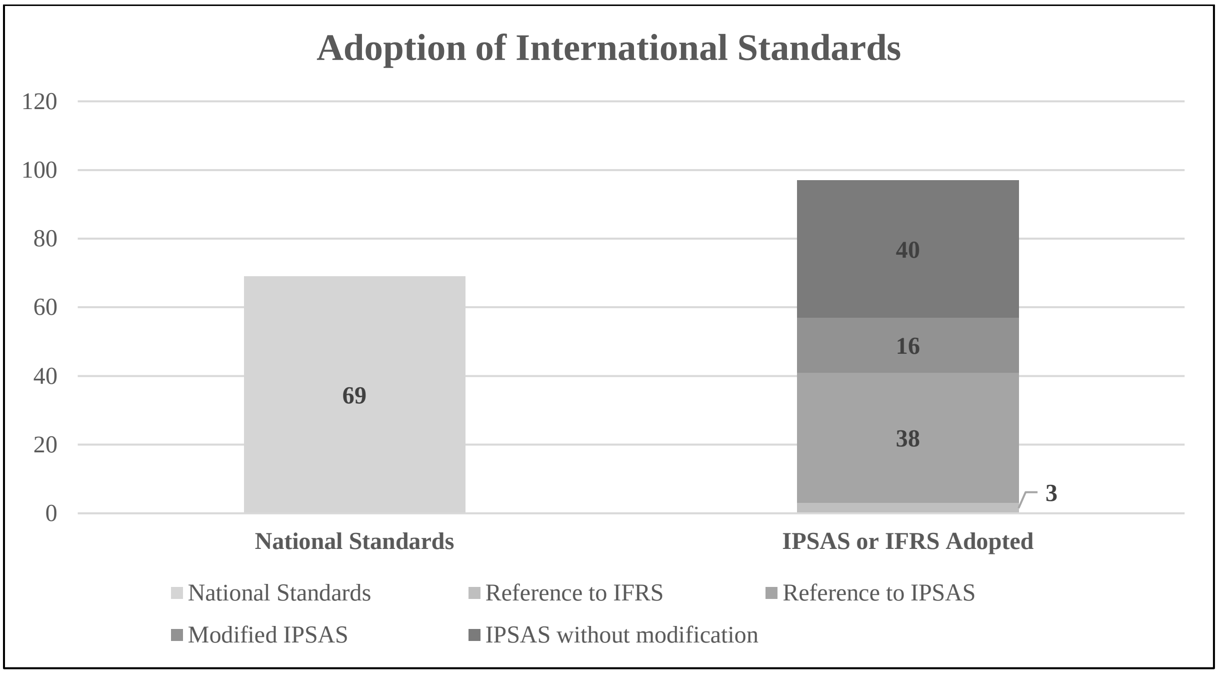

Figure 4.3: *States using national vs. international standards.*

very limited extent IFRS. However, as argued above, IFRS cannot really be viewed as being in competition with IPSASs as IPSASs are based on IFRS.

Looking at all jurisdictions adopting international standards, the predominant adoptions style seems to be adopting IPSASs without modification (40 jurisdictions). This is particularly surprising given the sensitive nature of accounting, the fact that these standards are set by a private organization, and the sovereignty states have over their accounting systems. From *Figure 4.2* it is evident that the majority (25) of those direct adopters utilize the cash-basis IPSAS and only four use full accrual IPSASs. The majority of countries reporting on an either full or modified accrual basis adopt IPSAS with modification or adopt them through reference in national standards. To further illustrate these adoption patterns, type of adoption and utilized accounting basis were cross tabulated in *Table 4.2*.

Table 4.2. categorizes countries by adoption status. From this it can be gleaned that a larger share of direct adopters seem to be either developing economies or small island nations, while the set of countries adopting (mostly accrual) IPSASs with modification or through reference in national standards is more diverse. This observation will be discussed further in Chapter 5.

	National standards	Reference to IFRS	Reference to IPSAS	Modified IPSAS	No modification
Cash	Bangladesh Belize Ethiopia Germany Guyana India Ireland Jamaica Kiribati Lebanon Luxembourg Malta Montenegro Mozambique Nepal Netherlands North Macedonia Norway Sao Tome and Principe Saudi Arabia Singapore Slovenia Sudan Trinidad and Tobago Tunisia Zimbabwe				Anguilla Bhutan British Virgin Islands Central African Republic Cyprus Ivory Coast Jordan Kosovo Laos Lesotho Liberia Malaysia Maldives Montserrat Nicaragua Pakistan Palestine Samoa Sierra Leone Solomon Islands Somalia St. Kitts and Nevis Tonga Turks and Caicos Islands Zambia
Partial Accrual	Albania Aruba Belarus Bolivia Botswana Bulgaria Burkina Faso China Taiwan Croatia El Salvador Eswatini Haiti Hungary Italy Kyrgystan Poland Romania South Africa Sri Lanka St. Lucia St. Vincent and the Grenadines Togo Tuvalu		Antigua and Barbuda Armenia Azerbaijan Bahamas Bosnia Herzegovina Chad DRC Georgia Ghana Greece Guernsey Iran Madagascar Mali Mexico Panama Senegal Slovakia Tajikistan Thailand United Arab Emirates Uzbekistan	Gambia Mauritius Mongolia Paraguay Portugal South Sudan Uganda Vietnam	Barbados Burundi Costa Rica Grenada Honduras Kazakhstan Kenya Malawi Rwanda Serbia Sychelles
Accrual	American Samoa Argentina Belgium Canada Denmark Federated States of Micronesia Finland France Guam Guatemala Hong Kong Japan Marhsall Islands Moldova Northern Mariana Islands Palau United States Vanuatu	Australia Jersey United Kingdom	Austria Brazil Cook Islands Czech Republic Ecuador Estonia Holy See Indonesia Israel Korea Latvia Peru Russia Spain Sweden Ukraine	Chile Colombia Iceland Lithuania New Zealand Nigeria Switzerland Turkey	Cayman Islands Dominican Republic Phillipines Tanzania

***Table 4.2**: Countries sorted by adopted status and accounting basis.*

II.3. Discussion

One of the main concerns associated with the datasets presented above is that they do not stem from an independent source. IFAC, as the parent organization of the standard-setting organizations, and a main advocate for accrual accounting reforms, has an interest in overstating the diffusion of its standards. For this reason, when data from the IFAC Adoption Status database was initially collected in April 2019, further research was conducted for each of the 136 jurisdictions. Initially this was intended to develop an original database. This idea, however, was dismissed as overall data quality as well as completeness would have been lower than for the IFAC databases. SMO Action Reports were gathered and analyzed for all jurisdictions and from there, further desk research was conducted to verify adoption status based on legislation found. A total of 485 documents were collected and analyzed. Regulations and legislation, often in local languages, were searched for using key words and read selectively in order to identify whether IPSASs had been adopted and via what means. In all but twelve cases, adoption or partial adoption could be confirmed through collected documents.[434] Conversely, in fourteen cases some evidence for adoption was found where it was not registered on the IFAC database. All other cases could be confirmed.

In 2022, Adoption Status data was updated and complemented with the IFAC Accountability Index database, which had become available online in full. Both databases were cross-checked for discrepancies and, where they existed, further desk research was conducted. Without exception, it became clear that discrepancies were because one of the databases was too conservative in its classification, rather than because of an overstatement of adoption. For example, Guatemala is listed in the Adoption Status database as an adopter, while the Accountability Index database lists it as applying “national standards: other”. However, in decree 13 of 2013 amending the Organic Budget Law of 1997, the congress of Guatemala mandated implementation of an accounting system based on IPSASs (Normas Internacionales de Contabilidad Para el Sector Publico).[435] The relevant IFAC member body is working with the Ministry of Finance on the implementation.[436] This sort of discrepancy may arise from the fact that, even though formally adopted, IPSASs do not seem to be fully implemented yet. For the purposes of this study, however, this case should be counted as adoption.

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[434] In those twelve cases, it was not possible to find or access laws, regulations, or other primary documentation that would have confirmed adoption states.
[435] El Congreso De La República De Guatemala, “Decreto Número 13-2013,” 2013.
[436] Ministerio De Finanzas Publicas, “Acuerdo Ministerial Número 109-2019,” March 4, 2019; Institute of Public Accountants and Auditors of Guatemala, “SMO Action Plan,” June 30, 2020.

Similarly, as mentioned above, the Adoption Status database applies very strict criteria for judging "partial adoption" versus "adoption". This leads to all countries adopting the cash-basis IPSAS without modifications—for example Lesotho, Zambia, and Nicaragua—being counted as partial adopters in that database. While the above discussion focused mainly on accrual as the IPSASs main cause, countries adopting the cash-basis IPSAS directly and without modification is very significant in the context of this study. This is so for at least two reasons: first, the cash-basis IPSAS is designed as a gateway to accrual for those jurisdictions who wish to transition but lack the capacity or experience to do so immediately. It is therefore accurate to say that these adopting countries are also on the path to accrual. Zambia is one example of this: cash-IPSASs are currently used but the relevant accounting body reports that the switch to accrual is upcoming.[437] Second and more importantly, many these countries adopt IPSASs directly into law, without any endorsement mechanism. This is often because IFAC member bodies in those countries have been delegated full authority to set accounting standards for both private and public sectors – these organizations then usually proceed to adopting IPSASs outright.[438] This is a surprising finding. As Chapter 2 argued, it is unlikely that private actors would be able to diffuse their standards to public sectors via formal-legal authority. Instead, it was argued, they will either need to rely on more indirect means – such as persuasion – or successfully enlist a governmental actor. And indeed, these are the strategies that have led to IPSASs success. However, it seems that surprisingly, there are private actors who get to directly and formally regulate the public sector.[439] Therefore, while on cash, these countries seem to be the most direct example of private regulation of the public sector.

As the above evidence shows, these datasets do not represent overstatements of IPSASs diffusion. In fact, they often provide more cautious assessments than necessary in the context of this study. As shown above, both databases individually have a tendency to slightly understate adoption status (the IFAC Adoption Status database more so than the Accountability Index). Beyond this, they also miss any diffusion that happens at subnational levels rather than at the level of central government. While there are no datasets on subnational diffusion of IPSASs, IPSASs adoption by federal states and municipalities is evidently widespread and spreading. As already discussed earlier, even in Germany, the country that puts up the most

[437] Zambia Institute of Chartered Accountants, "SMO Action Plan," August 2021.
[438] For example in Lesotho and Zambia.
[439] In the case of Zambia, of course, the local accounting is not the real ruler but a regulatory intermediary for the IPSASB. Even local accounting bodies in highly developed countries might not have the capacity to do what the IPSASB does. It is likely that cases of private bodies with direct legal authority over public accounting are more common in less developed contexts. Either way, this would be a phenomenon worth exploring in future research.

resistance to IPSASs and accrual reforms in the EU,[440] a number of states have adopted accrual standards[441] and at least one of them, Hesse, has experimented with accrual IPSASs.[442] Indonesia is adopting IPSASs all the way down to the village level utilizing a top-down approach.[443] In Italy, where the central government has not adopted IPSASs, at least four municipalities have opted to adopt IPSASs for the consolidation of their financial statements.[444] Both cases in which the central government mandates IPSASs adoption for all subnational units, and cases where subnational units move to IPSASs despite the central government not pursuing similar reforms, are not captured by the above dataset. This contributes to an underestimate of diffusion.

Likewise, the above databases do not include any information on the adoption of IPSASs by IGOs and supranational organizations, and the extent to which they are used and referenced at the international level. The OECD was the first IGO to require IPSASs for its internal accounting, adopting the standards in 2000.[445] Other were quick to follow, with NATO, the European Commission, the Organization of American States, as well as the entire UN system all following IPSASs.[446] The UN had first experimented with developing its own accounting standards but then moved to IPSASs in 2006, requiring them for accounting across the organization in all UN Bodies.[447] The Council of Europe, the European Space Agency, and the European Organization for the Exploitation of Meteorological Satellites have also adopted IPSASs.[448] Beyond their use for accounting in IGOs, IPSASs are also often used as a reference

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440 Interview 21.

441 See, e.g., Hessisches Ministerium der Finanzen, “Geschäftsbericht 2015”; Finanzbehörde Hamburg, “Geschäftsbericht Der Freien Und Hansestadt Hamburg 2015.”

442 “PFM Blog: German State of Hesse Tests the Suitability of IPSAS,” accessed September 14, 2022.

443 Imam Mujahidin Fahmid et al., “New Development: IPSAS Adoption, from G20 Countries to Village Governments in Developing Countries,” *Public Money & Management* 40, no. 2 (February 17, 2020): 160–63; Pran Krishansing Boolaky, Nitri Mirosea, and Kamil Omoteso, “The Adoption of IPSAS (Accrual Accounting) in Indonesian Local Government: A Neo-Institutional Perspective,” *International Journal of Public Administration* 43, no. 14 (October 25, 2020): 1252–65.

444 Giuseppe Grossi and Ileana Steccolini, “Pursuing Private or Public Accountability in the Public Sector? Applying IPSASs to Define the Reporting Entity in Municipal Consolidation,” *International Journal of Public Administration* 38, no. 4 (March 21, 2015): 325–34.

445 Brusca, Gómez-villegas, and Montesinos, “Public Financial Management Reforms.”

446 Brusca, Gómez-villegas, and Montesinos; NATO, “C-M(2013)0039 - NATO Accounting Framework,” 2013; EC, “Consolidated Annual Accounts of the European Union,” 2021; United Nations, “Preparedness of United Nations Systems Organizations for the International Public Sector Accounting Standards (IPSAS) JIU_REP_2010_6,” 2010; Organization of American States, “AG/RES. 1 (XL-E/10) Corr 1 Program-Budget of the Regular Fund of the Organization for 2011 and Contributions to FEMCIDI,” September 30, 2010; Organization of American States, “First Progress Report on the Adoption of International Public Sector Accounting Standards at the Organization of American States. CP/CAAP-3100/11.,” 2011.

447 United Nations, “Preparedness of United Nations Systems Organizations for the International Public Sector Accounting Standards (IPSAS) JIU_REP_2010_6”; Danny Chow and Caroline Aggestam Pontoppidan, “The United Nations’ (UN) Decision to Adopt International Public Sector Accounting Standards (IPSAS),” *Journal of Public Budgeting, Accounting & Financial Management* 31, no. 2 (June 3, 2019): 285–306.

448 Müller-Marqués Berger, *IPSAS Explained*, 20.

point when accounting is discussed at the international level with the EC calling them "the highest available standards"[449] and the IMF arguing that "IPSASs are […] recognized as best practice for public sector financial reporting".[450] The standards are also increasingly frequently referenced in manuals for international statistical standards such as those issued by the IMF. For example, the most recent version of the Government Finance Statistics Manual, makes mention of IPSASs 153 times and is harmonized with the standards.[451] This type of diffusion into other standards maintained by IGO matters both because it cements the IPSASBs focality in government financial reporting and because it increases the IPSASs reach and influence. Chapter 5 will explore this type of diffusion in greater depth.

In conclusion, it is evident that IPSASs have diffused to a level where they have reached focality and serve as *the* main international reference point for government financial reporting globally and the only international standard in this realm. Adoption data presented here illustrates that around half or over half of all countries in the world have made decisions to adopt IPSASs entirely or partially. While the relevant accounting literature suggests that the degree and quality of implementation vary a great deal between jurisdictions, and while systematic cross temporal studies do not seem to exist, the literature overall is in agreement that IPSASs are spreading.[452] IFAC's own reports as well as future projections similarly document this positive trend in global IPSAS adoption. This data and the discussion above suggest that there are few countries in the world where the IPSASB and its standards do not have a footprint – and that its sphere of influence is spreading.

Conclusion

This chapter has delved into the debate around accrual accounting standards for governments and explored how these seemingly neutral tools become fiercely political as their distributional implications create winners and losers among politicians, the bureaucracy, private actors, and society at large. To do so, this chapter revealed the flip side of accrual accounting proponent's claims. Through the example of pensions policies, it outlined the direct and indirect unintended consequences IPSASs can have for fiscal policy, forcing policymakers' hands in constructing

[449] EC, "Consolidated Annual Accounts of the European Union," 5.
[450] International Monetary Fund, *Government Finance Statistics Manual 2014* (Washington D.C: International Monetary Fund, 2014), 341.
[451] International Monetary Fund, *Government Finance Statistics Manual 2014*.
[452] For example, when IPSASs spread was studied in the EU in 2009, adoption seemed to be limited while in 2012, significant adoption levels were detected. See: Christiaens, Reyniers, and Rollé, "Impact of IPSAS on Reforming Governmental Financial Information Systems"; Christiaens et al., "The Effect of IPSAS on Reforming Governmental Financial Reporting."

a more financialized system which shifts more of the risk onto labor. Further, the chapter demonstrated how accrual reforms via IPSASs come with uncertain benefits achievable only over long time horizons, and at significant cost to states. This benefits accounting firms hired to help with implementation of such standards, including by retraining staff and updating IT systems, and reallocates large sums of public money to these firms. These are the very same firms whose representatives play leading roles in setting and diffusing those standards.[453] At the same time, costly reforms with unclear benefits may be a hard sell for elected politicians. Lastly, accrual standards may create unwanted transparency as well as power shifts within the bureaucracy. Letting sunlight in on larger parts of government finance would further limit the discretion of those in power and take from politicians a vital tool to shape economic reality. Accountants stand to gain influence as those currently in charge of public financial management will lose some of theirs – ceding it to accountants and their systems.

The discussion also sheds light on the motivation of the actors involved. Professional accountants involved in setting and diffusion IPSASs – whether they be employed by governments or big accounting firms – genuinely believe their standards' technical superiority will lead to better outcomes in the public sector. For them, accrual standards are not an end in themselves. The goal is to improve decision-making in public financial management by rooting it more firmly in financial data.[454] While part of those convictions are certainly rooted simply in their professional training and socialization as accountants, accountants and their profession also stand to substantially benefit from the diffusion of IPSASs. If their standards become more central to and partially drive financial management, the value of their expertise is increased – and with it employment opportunities and influence. Accounting firms open up whole new markets as governments begin the potentially decades-long transition towards a new system of standards. Public accountants gain relative power within the bureaucracy.

To those who oppose IPSASs, the perspective of financially driven decision making may be more of a threat than a promise. Partly, those opposing IPSASs might simply do so because of their own socialization in cameralist or otherwise cash-based systems, or as economists and lawyers who are unfamiliar with accruals and deem it inappropriate to the public realm because of its associations as "business-like" or "private sector". Partly, this may be a cultural knee-jerk reaction by hardened bureaucrats. However, the above discussion shows that, partly, their

[453] Chapter 6 will provide further discussion of the role of big accounting firms.
[454] Metcalfe and Sanderson, "Is Cash Still King? Maximising the Benefits of Accrual Information in the Public Sector."

resistance will be because they have an interest in maintaining the status quo. As current managers of public finance in cameralist systems where accounting has a weak tradition, economists and lawyers stand to lose relative power if accountants and their systems move into their domain. Governments might find the increased transparency undesirable, not wanting to disclose certain liabilities or information on assets. Policymakers might fear losing discretion has their hand is forced by financial data and its imperatives. Parliaments may fear – as was the case in Germany and the US – a loss of control especially as accrual accounting promises to lead to accrual budgeting. Power may shift to parts of the executive, as has happened in New Zealand.[455] As discussed, opponents of IPSASs can point to a lack of evidence for their effectiveness, their cost, inappropriateness to the public sector and undesirable outcomes. Ultimately, the fact that the central promise of accrual IPSASs – namely that they have the potential to drive decision-making – is both presented as a benefit and a critique of accrual demonstrates that the struggle for accounting standards is inherently political.

This chapter also showed, drawing on extensive data for 180 countries, that despite the outlined conflict lines, points of resistance, and the overwhelming asymmetry in power and resources between governments and the IPSASB, the IPSASB's standards are edging towards total victory and have already become the focal reference point for anyone discussing PFM reforms. About half the world's countries make use of the standards in one form or another – even if depth and consistency of implementation vary widely. International organizations like the IMF adopt them and harmonize their own standards with IPSASs and make reference to them whenever international best practice in accounting is discussed. IPSASs have become the world's generally accepted accounting principles (GAAP). Why this would happen or how is not immediately obvious. Given potentially momentous distributional consequences, and the weak position of accountants in many jurisdictions, one should expect the undertaking of diffusing IPSAS globally to be almost prohibitively difficult. The following chapters continue the explanation for the IPSASB's success by focusing on its key strategy: building supply chains. As outlined in Chapter 2, this thesis argues that an explanation that focuses on the supply side captures more of the picture. Chapters 5 and 6 trace the agency of a private actor vis-à-vis governments as it attempts to standardize how they do their accounting, completing the explanation of how the IPSASB came to standardize states.

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[455] See, Newberry, "The Use of Accrual Accounting in New Zealand's Central Government"; Newberry and Pallot, "A Wolf in Sheep's Clothing? Wider Consequences of the Financial Management System of the New Zealand Central Government."

CHAPTER 5: ORCHESTRATING THE ORCHESTRATORS: GLOBAL SUPPLY CHAIN CONSTRUCTION AND IPSASB NETWORKING OF IGOs

This chapter elaborates on the argument that the IPSAS Board's success depends crucially on the success of its international networking strategy. International Governmental Organizations (IGOs) like the World Bank and International Monetary Fund (IMF) act as the international gatekeepers for best practices in public financial management. They are pools of knowledge about how to govern, and active in the distribution of that knowledge. These IGOs and their networks constitute major diffusion channels for policy around the world – where World Bank and IMF do not diffuse knowledge themselves, they still are in control of much of the supply chain for knowledge on how to govern and make economic policy. Their reach is both global and deep in the sense that they can get new ideas about how to govern – such as International Public Sector Accounting Standards (IPSASs) – right into the heart of decision making in many countries. This is particularly true for developing countries as well as developed countries in need of technical assistance (such as Portugal during the sovereign debt crisis), lending, and help with reforms. Because the Board sets standards for sovereign governments rather than businesses that can more easily be compelled to adopt, it is all the more dependent on the legitimacy and leverage these IGOs can provide.

This is why enlisting these gatekeeping IGOs and drawing on them as supply chains for IPSASs is crucial to the focality of the IPSASB in the realm of government financial reporting. This chapter traces the way in which the Board was able to do exactly that in three individual stories. These three episodes illustrate the orchestration efforts private regulators undertake and how they enlist IGOs as diffusers of their standards. It demonstrates that private actors can be orchestrators and IGOs intermediaries. At the same time, the account highlights the fact that orchestration is not a one-way street but a complex give-and-take between actors. The IPSASB orchestrates IGOs by empowering actors within them to achieve ends they desire (e.g., better, more comparable data). At the same time, the IPSASB lobbies to be empowered by them, relying on (in this case informal and indirect) acts of endorsement to achieve the legitimacy and credibility it requires as its "regulatory license". As others have argued, orchestration is co-dependency.[456]

[456] Abbott et al., "Orchestration: Global Governance through Intermediaries."

The first of these stories (Part I) is about how the Board, through harmonization, inserted its standards into the predominant systems for global macroeconomic statistics. At the international level, there are a number of dominant statistical frameworks that are used to assess the economic situation of states. These systems are maintained and adopted mainly by the UN, the IMF, and the EU – in the latter case, their use is legally mandated. When we open a newspaper and read about the GDP of a country, that figure was produced and reported in accordance with the UN's System of National Accounts (SNA). In the EU, the Excessive Debt Procedure (EDP), which gained prominence in the sovereign debt crisis following the Global Financial Crisis of 2008, receives its data through the compulsory European System of Accounts (ESA) which conforms to the UN's SNA. These systems matter greatly for policy and politics. Embedding its standards in these frameworks is a major success for the IPSASB.

The second story (Part II) explores the Board's pursuit of legitimacy and credibility. As theorized in Chapter 2, private regulators need to be seen as credible and legitimate sources of (apolitical) expertise for their standards to be acceptable to states. As posited, gaining the endorsement of IGOs can be one way to secure that legitimacy. Others have revealed that this is one of the motivators for private standard setters to seek out being orchestrated by IGOs.[457] Part II finds that gaining formal IGO endorsement was not possible for the IPSASB because of the political implications of such an act. The reason lies in the fact that sates are the regulatory targets. If the IMF formally endorsed IPSASs, it would signal that those states not on IPSASs – including the US – have inadequate accounting systems. The Board circumvented this issue by instead pushing for public oversight through IGOs to secure its legitimacy and credibility vis-à-vis sovereign governments. Beginning with the reforms of the International Federation of Accountants (IFAC) triggered by the corporate accounting scandals of the early 2000s, through the global financial crisis and subsequent sovereign debt crisis, the Board pursued global regulators, asking to be overseen by them. What sounds counter-intuitive really is straightforward. The Board has everything to gain and little to lose from arranging non-intrusive public oversight by IGOs who are for legal reasons prevented from getting involved more substantially. After over a decade of pushing for oversight, in 2015 the Board achieved its goal. IGOs agree to set up the Public Interest Committee to oversee the Board, accrediting its procedures without interfering in its standard setting.

[457] Elsig, "Orchestration on a Tight Leash."

When IGOs like the World Bank and IMF lend money to countries or run development projects, they need to have a means of holding the creditor or project country to account – they are banks after all. When operating in a wide range of countries with vastly varying state capacity, economic systems, and bureaucracies, lack of data availability and comparability can make this task challenging. The IPSASB recognized early on – before it was called the "IPSASB" – that those IGOs might particularly interested in harmonized standards for government accounting. Officials within World Bank and IMF who are involved in technical assistance and country-level projects were sold on the idea that an initiative like the IPSASB might be a cost-effective way for them to make their lives easier. This potential for a symbiotic relationship was leveraged by the Board to orchestrate IGOs, enlisting them to diffuse IPSASs. As a result, IGO officials are recommending and implementing IPSASs in country projects, representing one of the most powerful IPSASs diffusion mechanisms. This shows that orchestration is not reserved for state actors. Part III elaborates on this phenomenon. Below, these stories will be told in turn, followed by a brief conclusion.

I. The Great Harmonization: Accounting for Statistics

As this chapter argues, the Board became the focal institution for public sector accounting standards not by chance or through institutional choice by states, but through tireless network building and enlisting IGOs to do its bidding. One of the most powerful strategies to becoming a focal standard setter is to make one's standards relevant to an existing rule infrastructure. For many ISO quality standards or environmental certification, this is to become integrated into global supply chains. It is to add one more link to an existing chain, to have a standard become standard practice in assuring buyers and consumers of the quality of a product, its fair conditions of production, or its environmentally friendly sourcing.

In the case of the IPSASB, this means firmly linking its standards to existing supply chains for global financial information and knowledge. In this section, I will shed light on this process by examining the case of macroeconomic statistics. In this case, the Board and its standards have become increasingly integral to the production of data relied on by IGOs, governments, and institutional investors around the world. The Board is the only non-IGO at the table.[458]

[458] Aside from, on occasion, its private accounting standards cousin, the IASB.

I.1 The international system of macroeconomic reporting

The current international system of macroeconomic statistics has its origins in the work of the League of Nations. Advances in economics and statistics, but most importantly, the great depression and the world wars were seen to necessitate a way to generate, compile, and compare economic data at the international level. Work on the statistical measurement of national income had been undertaken by the League as early as the late 1920s. Interrupted by the Second World War, the Committee of Statistical Experts of the League of Nations produced a series of reports on banking and balance-of-payment statistics, as well as national accounts. The last of its "Studies and Reports on Statistical Methods", published under the Chairmanship of Cambridge economist Richard Stone just as the League of Nations was becoming the United Nations (UN), laid the groundwork for what would later become the System of National Accounts.[459]

Driven by the fresh memory of the great depression and the issue of funding the war effort, as well as the new challenge of post-war reconstruction, Stone's report was developed into a more comprehensive framework. In 1953, the sequel report was published as "A System of National Accounts and Supporting Tables",[460] now referred to as the 1953 SNA. In its introduction, the 1953 SNA describes the need for the development of national accounting as follows:

> "*The practical need arose largely from the great depression of the 1930's and the subsequent problems of economic mobilization and war finance in the Second World War. In the post-war period the information was desired to throw light on problems of economic reconstruction and development and, more generally, for assessing economic change as a background for economic decision-making in connexion [sic] with public policy.*"[461]

This illustrates well that the main purpose of macroeconomic accounts is to provide the data to enable economic analysis and to inform decision-making in economic policy. Macroeconomic monitoring of the Marshall Plan provides an early example for this and was one of the drivers behind establishing the SNA after the war.[462] Taking into account the total of the economy,

459 Richard Stone, "Measurement of National Income and the Construction of Social Accounts," Studies and Reports on Statistical Methods (Geneva: United Nations, 1947), 5.
460 United Nations, "A System of National Accounts and Supporting Tables," Studies in Methods (New York: United Nations, 1953).
461 United Nations, 1.
462 François Lequiller and Derek W. Blades, "International Systems of National Accounts: Past and Future," in *Understanding National Accounts* (Paris: OECD, 2006), 399.

disaggregated by sector,[463] the type of data compiled via the SNA provides an overview of economic performance and the interrelation of economic units. This allows for monitoring of economic flows within the economy such as production as well as household and government consumption. An overall picture of the state of the economy emerges, that the most recent version of the SNA published in 2008 describes as “a prerequisite for informed, rational policymaking and decision-taking”.[464] The most prominent aggregate measure resulting from SNA data, the Gross Domestic Product (GDP), is used so widely that even the least economically savvy citizen will have heard of it.

Beyond monitoring of macroeconomic performance, SNA measures feed into econometric models used by IGOs, governments, and corporations alike. As mentioned above, this is used for policymaking and budgeting nationally. At the same time, such data is often a crucial component in economic projections informing investment decisions by financial institutions, multinational corporations, and states. Similarly, SNA data is used for international comparisons between countries, and to shed light on the relative economic performance of countries. The data can thus be used for international policymaking as well – for example to monitor the implementation of the Millennium Development Goals, now the Sustainable Development Goals.[465] The lending activities of IGOs such as World Bank and IMF are also often informed by SNA data, for example when deciding on loan eligibility and allocation of aid.[466] Credit rating agencies also draw on macroeconomic statistics for their sovereign ratings which, in turn, play an important role in access to capital markets and international finance.

The variety of uses and the distributional consequences attached to them illustrate the importance of statistical reporting in global governance. The SNA 2008 is the relevant overarching international framework. While the SNA is used by most governments around the world, its implementation is not legally binding. The European Union (EU), however, requires a compulsory reporting system for national accounts in order to enable the implementation and supervision of the Economic and Monetary Union.[467] For that purpose, EU Parliament and Commission have mandated that all Member States report their economic situation in

[463] Five sectors in addition to the rest of the world (balance of payments): (1) nonfinancial corporate and quasi-corporate enterprises (2) financial institutions (3) general government (4) private nonprofit institutions serving households and (5) households, see: International Monetary Fund, *A Manual on Government Finance Statistics* (Washington D.C: International Monetary Fund, 1986).
[464] United Nations et al., *System of National Accounts 2008* (New York: United Nations, 2009), 4.
[465] And according to the new IPSASB strategy, IPSASs can also help reach them: see IPSASB, “Strategy and Work Plan 2019-2023: Delivering Standards. Inspiring Implementation.” (New York, February 2019).
[466] United Nations et al., *System of National Accounts 2008*, 5.
[467] As argued in the relevant regulation, see below.

accordance with the European System of Accounts.[468] The ESA is fully consistent with the overarching SNA but is somewhat more detailed in its presentation as it is legally binding on Member States. The transmission of ESA data is an important component in EU fiscal and economic surveillance as well as policymaking. Among other things it is used to determine contributions to the EU budget, as well as for economic monitoring in connection with the excessive debt procedure and the Stability and Growth Pact.[469] The ESA has its roots in the 1970s when its precursor document was drawn up by the Statistical Office of the European Communities. However, the system was not legally binding until the Maastricht Treaty established the Excessive Debt Procedure.[470]

Besides national accounts, an array of other statistical systems have emerged to serve slightly different yet related purposes. One such system of import is the Government Finance Statistics Manual (GFSM) maintained by the IMF.[471] The IMF published the first version of the GFSM in 1986,[472] having recognized the need for an additional statistical framework (next to the existing SNA) more focused on fiscal policy and special character of government and its important role in the economy.[473]

The resulting Government Finance Statistics (GFS) provide an overview of government taxing, spending, borrowing, and lending and are designed to facilitate fiscal analysis. As such, they are used to evaluate fiscal policy, the performance of government and the public sector, and its impact on the economy, and to inform policymaking.[474] As it is very much a framework to actively inform decision-making and macroeconomic surveillance by governments themselves but also by IGOs and institutional investors, GFS represent an important part of global economic governance. As Christine Lagarde – then managing director of the IMF – argues in her foreword to the most recent version of the GFSM:

[468] The current version is ESA2010, published in 2013: "Regulation (EU) No 549/2013 of the European Parliament and of the Council of 21 May 2013 on the European System of National and Regional Accounts in the European Union OJL174/1," accessed April 20, 2021. The previous version is ESA95: "Council Regulation (EC) No 2223/96 of 25 June 1996 on the European System of National and Regional Accounts in the Community, OJL310/1," accessed April 20, 2021.
[469] Eurostat, *European System of Accounts 2010* (Luxembourg: Publications Office, 2013), 2.
[470] See articles 2 and 3: Council of the European Communities and Commission of the European Communities, eds., *Treaty on European Union* (Luxembourg, 1992).
[471] The most recent version was published in 2014: International Monetary Fund, *Government Finance Statistics Manual 2014*.
[472] Based on a draft circulated in the early 1970s, see: International Monetary Fund, 2.
[473] International Monetary Fund, *A Manual on Government Finance Statistics*, 1.
[474] International Monetary Fund, *Government Finance Statistics Manual 2014*, 1 ff.

> "*The international financial crisis in recent years, and the associated large fiscal deficits and rising debt levels in many countries, underscored the importance of reliable and timely statistics on the general government and public sectors. These events have shown the importance of internationally comparable data that allow detecting sources of vulnerability early and taking timely corrective measures.*"[475]

Besides GSFM, the IMF maintains (together with other IGOs) further specialized statistical manuals and guides, as well as standards for data quality and transmission. As supplements to the GFSM serve two specialist guides focused on debt: As a framework and guideline for the compilation and dissemination[476] of debt statistics for the public sector it publishes the "Public Sector Debt Statistics: Guide for Compilers and Users".[477] The guide was drafted as a complement to the existing guide on External Debt Statistics (EDS) which deal with measuring the external debt of a country, that is, liabilities owed to non-residents by residents of an economy.[478] Both guides are motivated by a desire to strengthen global economic monitoring and governance: Both reference the 2008 financial crisis to justify the need for more comprehensive and comparable data on debt[479] – the first version of the EDS Guide published in 2003 referenced the "international financial crises of the 1990s",[480] such as the Asian financial crisis. Both frameworks are derived from the SNA and therefore tie in with the above infrastructure. They are also consistent with the IMF's Balance of Payments Manual (BPM) which has been published since 1948 and focuses on transactions and positions of an economy with the outside world (both the flow of real goods and services, and the flow of financial payments and obligations).[481] It is currently in its 6th iteration.[482] To complete the suite, the Monetary and Financial Statistics Manual (MFSM) first published in 2000 focuses on stocks

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475 International Monetary Fund, xix.
476 NB: the other Manuals mentioned are mostly of a conceptual nature and do not include detailed instructions on how to compile and disseminate data.
477 International Monetary Fund and Inter-Agency Task Force on Finance Statistics, eds., *Public Sector Debt Statistics: Guide for Compilers and Users* (Washington D.C: International Monetary Fund, 2011).
478 Inter-Agency Task Force on Finance Statistics, International Monetary Fund, and International Monetary Fund, eds., *External Debt Statistics: Guide for Compilers and Users*, 2013 [edition] (Washington, DC: International Monetary Fund, 2013), 5.
479 Inter-Agency Task Force on Finance Statistics, International Monetary Fund, and International Monetary Fund, xi; International Monetary Fund and Inter-Agency Task Force on Finance Statistics, *Public Sector Debt Statistics*, vii.
480 International Monetary Fund, ed., *External Debt Statistics: Guide for Compilers and Users* (Washington, DC: International Monetary Fund, 2003), xi.
481 International Monetary Fund, ed., *Balance of Payments Manual* (Washington D.C: International Monetary Fund, 1948).
482 International Monetary Fund, ed., *Balance of Payments and International Investment Position Manual*, 6th ed (Washington D.C: International Monetary Fund, 2009).

and flows for financial sector including central banks.[483] Especially since the manuals discussed above (with exception of the Debt Guides), are mostly conceptual in nature and do not prescribe detailed procedures for data generation, compilation, and dissemination, the IMF launched a data standards initiative.[484] Countries subscribe to the respective standard and commit to compile and submit data accordingly.[485] One of the stated purposes is to assist with access to capital markets by providing market participants with more reliable and transparent data on the economic situation of the country.[486]

The above is a sketch of a complex web of systems that together are crucial to international economic monitoring and decision-making as well as to national policymaking. *Figure 5.1* serves as an overview. After this brief overview, it can already be seen that to successfully integrate its standards into this system of global economic governance would be a great and consequential accomplishment for a standard setter such as the IPSASB. This is because, if IPSASs are "adopted" by these manuals, and the standards harmonized, resulting potentially significant efficiency gains will encourage adoption. For example, most states report GFS. If this becomes significantly easier through adopting IPSASs, some actors previously unconvinced of IPSASs benefits might become convinced. Additionally, if IMF officials know that using IPSASs will lead to better GFS reporting by states, they will see even greater benefit in encouraging (or coercing) states to adopt IPSASs. Lastly, integration of IPSASs into macroeconomic reporting frameworks maintained by IGOs like the IMF and UN represents a form of indirect endorsements of the standards. This will raise the credibility and legitimacy of IPSASs. Later sections will elaborate further. The following section will trace how the Board gained a seat at the table and how its standards diffused into most of the above-mentioned frameworks.

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[483] International Monetary Fund, *Monetary and Financial Statistics Manual and Compilation Guide* (International Monetary Fund, 2017).

[484] This, again, was driven by the experience of financial crises in the 1990s. The SDDS cites the 1994 crisis in Mexico specifically: International Monetary Fund, ed., *The Special Data Dissemination Standard: Guide for Subscribers and Users* (Washington, D.C.: International Monetary Fund, 2013), 1 FN1.

[485] International Monetary Fund, *The Special Data Dissemination Standard*. For countries with weak statistical capacity wishing to improve their data quality and move closer towards compliance with the SDDS, the IMF established the General Data Dissemination Standard (GDDS) in 1997, which was superseded by the updated version, the enhanced-GDDS in 2015: International Monetary Fund, ed., *The General Data Dissemination Standard: Guide for Subscribers and Users* (Washington, D.C.: International Monetary Fund, 2015).

[486] International Monetary Fund, *The Special Data Dissemination Standard*, vii.

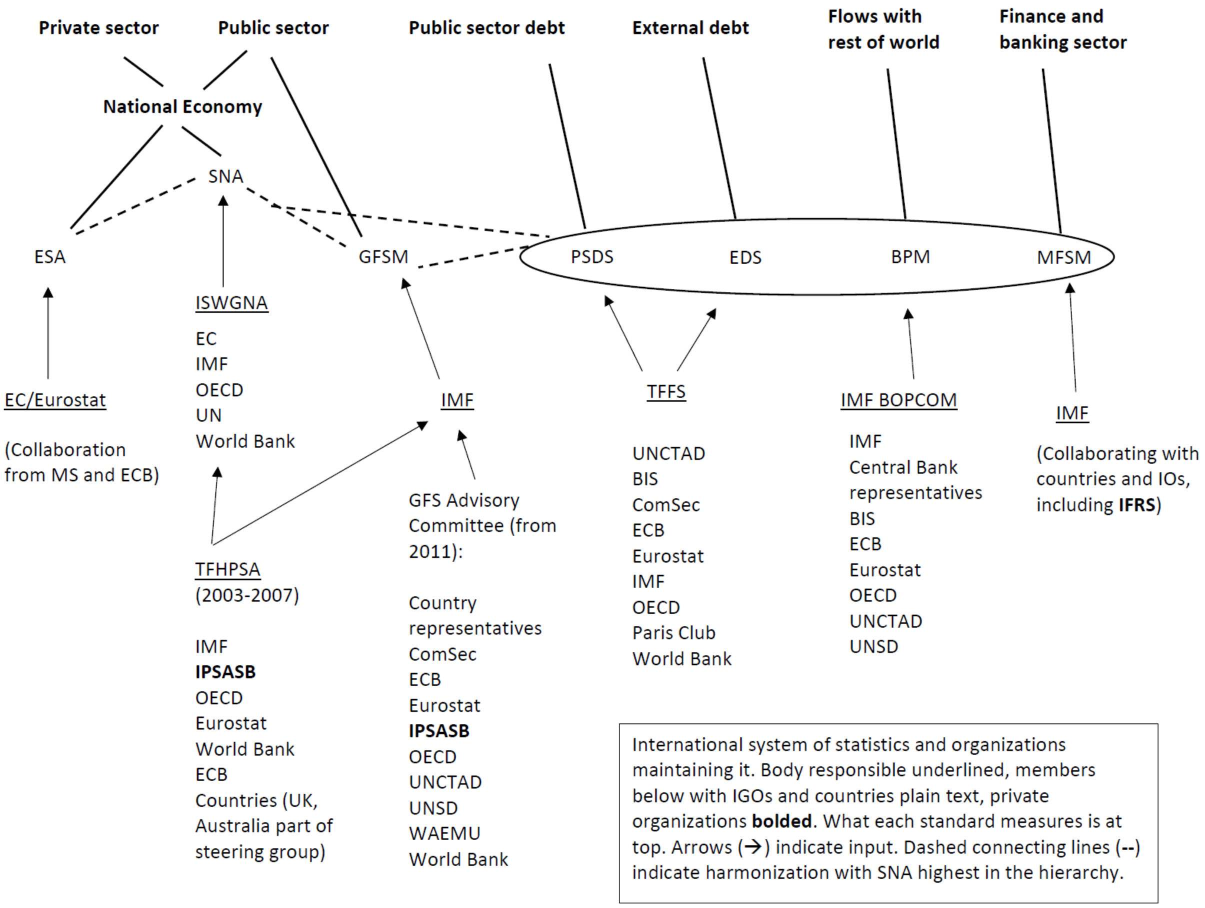

Figure 5.1: *Overview of the international system of macro statistics and the organizations maintaining it.*

I.2 Getting a seat at the table: integrating IPSASs and statistical reporting

I.2.1 The difference between statistics and accounting

As alluded to in the above, the different systems for compiling and reporting macroeconomic statistics are partially built on and harmonized between each other. Consistency across these systems makes sense because of their similar purposes and to prevent the reporting burden from becoming unmanageable for countries. The need for harmonization between statistical systems was recognized early on and integration between them has progressed as each international framework was updated.[487]

[487] For example, GFS 2001 was developed to be harmonized with SNA 1993, as was ESA 1995. The discussion below will focus on the efforts of IPSASB in getting a seat at the table in the most recent round of revisions, which brought changes to all major manuals resulting in the current state where SNA 2008, GFSM 2014, ESA 2010, and BPM6 are all harmonised among each other.

However, besides statistical reporting, governments maintain two additional fiscal information systems: accounting and budgeting. While these three systems have become more integrated over time, they remain largely separate. This is because they serve different purposes, have different histories and also because they are usually "maintained by separate government offices, staffed by professionals trained in different disciplines, and guided by separate standards".[488] In basic terms, macroeconomic statistics, such as national accounts, provide aggregate measures of economic performance used for economic analyses. Budgeting systems are for resource allocation and generally forward-looking. They are sometimes tied to performance (output) indicators and (ideally) to accounting. Accounting systems are retrospective and produce general purpose financial statements for control and accountability of individual units.[489]

To understand the entry point for the IPSASB to attach its standards to the above structure of global economic governance, it is helpful to briefly consider the difference between statistics and accounting. Without exception, all frameworks discussed above are statistical in nature and maintained by economists and statisticians. The IPSASs on the other hand are standards for accounting and the production of general-purpose financial statements. Financial statements measure at the micro level and refer to the individual economic unit reporting, such as a company or a government department. Macroeconomic statistics, such as national accounts, provide aggregate measures (at the macro level) that refer to all units and sectors in the economy and how they interrelate.[490]

Of course, financial statements represent a major data source for the compilation of statistics. However, to arrive at aggregate measures, statisticians make adjustments to underlying accounting data. This may be because accounts are recorded on different bases or use different valuations than the statistical systems. For example, traditionally, many governments report on a cash basis and value assets at historic cost. Statistical systems like the SNA, however, require data to be on an accrual basis as well as valued at current market values. In addition to this, statistics draw together a multitude of accounts and other data from different sources across the

[488] Heiling, Schührer, and Chan, "New Development," 297. See also: Rowan Jones, "Measuring and Reporting The Nation's Finances: Statistics and Accounting," *Public Money and Management* 23, no. 1 (January 2003): 21–28.
[489] Heiling, Schührer, and Chan, "New Development"; Rosa Maria Dasí, Vicente Montesinos, and Santiago Murgui, "Government Financial Statistics and Accounting in Europe: Is ESA 2010 Improving Convergence?," *Public Money & Management* 36, no. 3 (April 15, 2016): 165–72; Rosa Mª Dasí González, "Towards Convergence of Government Financial Statistics and Accounting in Europe at Central and Local Levels," *Revista de Contabilidad*, 2018, 10; Jones, "Measuring and Reporting The Nation's Finances."
[490] See e.g. Dasí, Montesinos, and Murgui, "Government Financial Statistics and Accounting in Europe."

economy. Furthermore, there are different requirements for timeliness as well as trade-offs between reliability and relevance. Financial statements are usually compiled on an annual basis. For purposes of economic analysis, however, it is often important that data is available in shorter periods such as quarters. Similarly, statistics have a somewhat greater focus on relevance for analysis than accuracy: for example, reporting at current market values is more relevant to analysis but may be accurate only for a limited time.[491] Therefore, estimation and imputation are necessary to arrive at an integrated set of national accounts when dealing with multiple data sources, different forms of measurement, and missing data.[492]

From the above it should also be clear that improving data quality at the level of accounting and making statistical and accounting systems more similar, has potential to increase efficiency of reporting and usefulness of the data. In theory, there is potential for a "great convergence" between accounting, statistics, and budgeting into one integrated system for fiscal analysis and policy.[493] It is this potential that the IPSASB could strategically tap into to market its standards.

I.2.2 The IPSASB's strategic networking

As this chapter argues, the Board actively and strategically networked with IGOs to disseminate its standards and to embed itself into global systems of data production and supply. Part of that strategy was to get a seat at the table of the relevant IGO working groups maintaining the above outlined systems of statistical reporting that underpin global economic governance. If the Board succeeds in diffusing its standards into these systems by convincing IGOs that statistics and accounting should be harmonized using IPSASs, the profile of its standards and its power will rise as it becomes the focal standards setter. The most recent IPSASB strategy paper evidences this approach to global and regional outreach:

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[491] See e.g., Lucie Laliberté, "Relationship Between Macroeconomic Statistical Guidelines and Accounting Standards," 2004, 29f.

[492] Laliberté, "Relationship Between Macroeconomic Statistical Guidelines and Accounting Standards"; Giovanna Dabbicco, "A Comparison of Debt Measures in Fiscal Statistics and Public Sector Financial Statements," *Public Money & Management* 38, no. 7 (November 10, 2018): 511–18. See also the discussion in the introduction and chapter 5 of the first version of the GFSM: International Monetary Fund, *A Manual on Government Finance Statistics*.

[493] Heiling, Schührer, and Chan, "New Development."

"*The IPSASB believes it is important to build relationships with [international and regional] organizations, so that its accrual accounting expertise is drawn upon by them, in order to expand the use of accrual information for PFM purposes, and to increase the alignment between the requirements of these different user groups*."[494]

One of the essential pillars for pursuing this objective was to strengthen ties with the IMF continuing to harmonize its standards with the GFSM "in order to facilitate the use of IPSAS data for GFS purposes".[495] For at least 25 years, the Board has done exactly that.

Phase I: 1995-2002

The issue of approaching the IMF over GFS first came up around the inception of the standards project. Ian Ball was about to be elected chair and the Board – then still the Public Sector Committee (PSC) – had not yet decided on setting standards let alone produced any. At a meeting in May 1995, the committee discussed the ongoing revision of GFS1986 the IMF had started to undertake to make the system more consistent with SNA1993. At the meeting, "members felt that […] the committee should also focus on this issue"[496] and it was suggested that the PSC "should add a project in the work plan regarding this issue and liaise with the IMF during their development".[497]

In the following PSC meetings, progress on GFS revision was reported back by the IMF observer, Günter Wittich.[498] Due to the Board's interest in advocating for accrual accounting, it took note of the IMFs plan to revisit the reporting basis.[499] The reporting basis of the GFSM1986 was still cash. The Manual argued that because of the different character of government, and the widespread use of cash "governments cannot maintain full accrual accounts".[500] The IMF agreed to circulate the study on the reporting basis and to "continue to brief the PSC on ongoing developments".[501] In November 1996, both said study[502] and the

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494 IPSASB, "Strategy and Work Plan 2019-2023: Delivering Standards. Inspiring Implementation.," 19.
495 IPSASB, 19.
496 Public Sector Committee. Minutes of meeting. May 1995: 3.
497 Public Sector Committee. Minutes of meeting. May 1995: 3.
498 Public Sector Committee. Minutes of meeting. November 1995. Public Sector Committee. Minutes of meeting. June 1996. Public Sector Committee. Minutes of meeting. November 1996.
499 Public Sector Committee. Minutes of meeting. June 1996.
500 International Monetary Fund, *A Manual on Government Finance Statistics*, 2.
501 Public Sector Committee. Minutes of meeting. June 1996: 3.
502 The study concluded that GFS should be reported on an accrual basis also which is of course great news for the Committee which decides to use that paper in its own advocacy for accruals. See for the IMF paper: Don Efford, "The Case for Accrual Recording in the IMF's Government Finance Statistics System," *IMF Working Papers* 96, no. 73 (1996): i. See for the PSC's decision to use it: Public Sector Committee. Minutes of meeting. November 1996: 3.

outline for the revised GFSM were submitted to the PSC for comment. A PSC representative was also invited to be part of a meeting with users and compilers of GFS in Washington DC.[503] Approaching the completion of the revised GFS in 2001, the PSC received various chapters for comment.[504]

The above shows that the first approach on this issue was initiated by the PSC and that it was generally well received by the IMF. However, it was not until the next iteration of revisions to SNA and subsequently GFS that the PSC's involvement became more formal.[505]

Phase II: 2002-09

In early 2002, the new PSC chair, Ian Mackintosh, and the director of the standards project, Paul Sutcliffe, met with IMF staff to discuss "issues of mutual interest including the harmonization of GFS and IPSASs".[506] At the meeting, they proposed establishing a "high level strategy committee"[507] to pursue convergence of the two standards. The PSCs vision was to establish two working groups, one focused on immediate technical harmonization issues, and the second dealing with longer term strategic issues to assure that the standards would continue to converge in the future and that cooperation is maintained.[508]

The immediate result of the PSC's networking efforts was the "Convergence Group". Chaired by the PSC chairman, the group consisted of representatives from IMF, the Organization for Economic Cooperation and Development (OECD), Eurostat, the Australian Accounting Standards Board, and the UK Treasury as well as Office of National Statistics.[509] The group met for the first time in July 2003 in Washington DC.[510] This meeting opened the door to much deeper cooperation and integration for the PSC and its standards. At the meeting it was decided

[503] Public Sector Committee. Minutes of meeting. November 1996.
[504] Public Sector Committee. Minutes of meeting. May 1999. Public Sector Committee. Minutes of meeting. January 2000. Public Sector Committee. Minutes of meeting. November 2000. In the meantime, the PSC also included discussions of SNA and GFS in its own materials on the emerging standards, see: Public Sector Committee. Minutes of meeting. May 1997. Public Sector Committee. Minutes of meeting. April 1998.
[505] In the interim, the PSC actually voted to put off further IPSAS-GFS harmonization projects "until 2003 or later". Public Sector Committee. Minutes of meeting. November 2001: 12.
[506] Public Sector Committee. Minutes of meeting. March 2002: 4.
[507] Public Sector Committee. Minutes of meeting. March 2002: 4.
[508] Public Sector Committee. Minutes of meeting. November 2002.
[509] As usual, it is Anglo-Saxon countries who have a seat at the table because of their greater expertise and experience with introducing accounting innovations, particularly towards accrual standards. Australia had at this time just gone through harmonising of their own accounting practices and GFS; the UK is at this time introducing whole of government accounting. Responsible for this in the UK was Ian Carruthers who is part of these meetings and should later become IPSASB chairman himself.
[510] Public Sector Committee. Minutes of meeting. July 2003.

that the Convergence Group would become the Task Force on Harmonization of Public Sector Accounting (TFHPSA).[511]

The constituting meeting of the TFHPSA was held in October 2003 at the OECD headquarters in Paris. The meeting, jointly chaired by the PSC and the IMF, decided on the mandate, structure, and membership of the Task Force.[512] Having noted at the previous meeting that ESA and GFSM, both developed in reference to the overarching SNA, could only be substantially changed "when SNA is revised and the SNA is to be revised by 2008",[513] the Task Force intended to get involved in the SNA revision process.[514] Thus, its mandate was to identify convergence potential between ESA95, GFSM2001, and IPSASs[515] and make amendments as necessary, as well as "to make recommendations to the Inter-Secretariat Working Group on National Accounts (ISWGNA), for amending SNA".[516] The Task Force was to be led by a Steering Group consisting of the members of the above-mentioned Convergence Group, as well as the European Central Bank, chaired by the IMF. The work would be done by two Working Groups, one chaired by the PSC, one by the OECD, which would also provide the secretariat for the Task Force.[517]

Including the constituting meeting, the Task Force met a total of six times alternating between Washington and Paris. The number of people in attendance rose from 18 at the first[518] to around 40 in the later meetings[519], where the Task Force was also joined by representatives from countries beyond the initial two who are members of the Steering Group (Australia and UK).[520]

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511 Public Sector Committee. Minutes of meeting. November 2003.
512 Public Sector Committee. Minutes of meeting. November 2003.
513 Public Sector Committee. Minutes of meeting. July 2003: 26.
514 Public Sector Committee. Minutes of meeting. July 2003.
515 IFRSs are also included in the list but are mainly to be considered through the lens of IPSASs, which are based on them: "future references will be made to IPSAS only, except in cases where there is any divergence between them". See, TFHPSA, "International Task Force on Harmonization of Public Sector Accounting: Minutes of the Steering Group Meeting" (Paris: OECD, October 3, 2003), 1. The IASB gets a seat at the table but does not attend the first meeting.
516 TFHPSA, 1.
517 TFHPSA, "International Task Force on Harmonization of Public Sector Accounting: Minutes of the Steering Group Meeting."
518 TFHPSA.
519 See, e.g., the third meeting: TFHPSA, "International Task Force on Harmonization of Public Sector Accounting: Summary of Conclusions" (Paris: OECD, February 11, 2004).
520 Taking into account the available minutes (five out of six meetings), the countries besides Australia and the UK (who as members of the Steering Group will have attended all) to attend at least one meeting were: Denmark (4), Hungary (4), Japan (4), New Zealand (4), U.S.(4), Austria (3), Brazil (3), Canada (3), Norway (3), Bulgaria (2), France (2), Germany (2), Sweden (2), Argentina (1), Belgium (2) Czech Republic (1), Greece (1), Israel (1), and Switzerland (1). Although they do at times send differently sized delegations; the U.S., for example, attended one of the meetings with a delegation of 14, while most countries send two representatives, see: TFHPSA, "International Task Force on Harmonization of Public Sector Accounting: Summary of Conclusions" (Washington D.C: IMF, October 3, 2005).

Upon conclusion of the Task Force's business in 2006, it delivered a final report,[521] as well as a draft chapter[522] that was to form the basis of Chapter 22 of the revised SNA, ultimately published in 2009.[523]

I.3. Impacts

This episode is a significant development because it created an opportunity for the IPSASB to be formally and crucially involved in the revision of the system of macro statistics underpinning global financial governance outlined above. Being able to give direct input to the working group of IGOs maintaining the overarching statistical manual[524] meant creating the potential for diffusing IPSASs into all relevant international statistical systems, because they all depend on SNA. While there is room to debate the depth of these changes, this thesis argues that the case of GFS and SNA harmonization represents a clear victory for the Board and is a great example for the tangible effects of the Board's international network building.

While the Board's substantial impact on statistical standards was probably limited at this stage, it was not negligible. It is not the case that the harmonization process simply ended up transforming IPSASs to conform with IGOs' statistical standards. The revision process and its outcomes show that there was cross-pollination, and that harmonization went both ways. IPSASs had begun to diffuse into macroeconomic statistics. The IMF's GFSM naturally takes most from the Board, devoting a whole chapter to them. However, other important standards also adopted changes as a result of the above-described process. Most notably, the overarching SNA argues in its revised version that "*[i]n several cases, notably on pension liabilities and intangible assets, the feasibility of including certain items in the SNA is dependent on the application of the international accounting standards*".[525] As mentioned above, the SNA's 22nd chapter is the direct result of the TFHPSA's work. The approach to Public Private Partnerships are another example where the SNA will substantially rely on the Board's work in the future.[526]

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[521] Jean-Pierre Dupuis, Lucie Laliberté, and Paul Sutcliffe, "Task Force on Harmonization of Public Sector Accounting - Final Report" (Paris, March 2006).
[522] John Pitzer and Jean-Pierre Dupuis, "The General Government and Public Sectors" (Fifth Meeting of the TFHPSA, Paris, 2006), 52.
[523] See, United Nations et al., *System of National Accounts 2008*, 435ff.
[524] The ISWGNA, based at the UN, is composed of Eurostat, IMF, OECD, UN, and World Bank. It is advised by the Advisory Expert Group which consists of 18 officials from various countries serving terms of at least three years each.
[525] United Nations et al., *System of National Accounts 2008*, 11.
[526] The SNA states: "*Public private partnerships (PPPs) are described in chapter 22. Further developments in their treatment in the SNA await the development and adoption of standards underdevelopment by the IASB and IPSASB. The ISWGNA is monitoring developments*", United Nations et al., 609.

As statistical standards and IPSASs inch closer, IPSASs stand to gain in attractiveness and see a boost in diffusion. If, for example, IPSASs can be used seamlessly for GFS, ESA, or SNA reporting, the overall reporting burden would be lowered as the need for adjustments and imputations would be reduced. For example, the German Central Bank (*Bundesbank*) argued in a 2018 report that growing statistical data needs and stricter quality requirements at the international and European level were beginning to pose a challenge to Germany's statistical and debt reporting. The Bundesbank saw this as an argument for harmonizing and modernizing the heterogenous public accounting systems in Germany.[527] In this sense, as the Chair of the TFHPSA argued in a background paper, harmonization promises on the one hand to improve availability high quality and "readily usable data sources" while on the other hand "help[ing to] encourage the internationalization of accounting standards".[528] The IPSASB has, of course, long recognized this as a potential pitch for their standards:

> "*The need to continue to focus on the System of National Accounts (SNAs) was also reiterated [at the Board meeting,] as this will assure ministries of finance that the IPSASs provide appropriate financial reporting standards for governments that avoid unnecessary differences between financial reporting requirements and statistical reporting*".[529]

As already shown earlier, harmonization with statistical guidelines is also an important part of the current IPSASB strategic plan, anticipating that it will foster diffusion of IPSASs. For example, the Board seeks continued convergence with GFS to "facilitate the use of IPSAS data for GFS purposes and in turn its use in supporting budgetary and macroeconomic policy decisions".[530]

I argue that the impacts go beyond the substantial changes it effected in statistical guides. The harmonization efforts and its outcomes are of tremendous strategic value to the Board because they (1) raise its visibility, (2) increase its legitimacy, and (2) strengthen enduring channels for cooperation with IGOs and participation in the continued production of global governance frameworks.

[527] Deutsche Bundesbank, "Monthly Report, April 2018," April 2018.
[528] Laliberté, "Relationship Between Macroeconomic Statistical Guidelines and Accounting Standards," 32.
[529] International Public Sector Accounting Standards Board. Minutes of meeting. December 2009: 19.
[530] IPSASB, "Strategy and Work Plan 2019-2023: Delivering Standards. Inspiring Implementation.," 19.

Mentions of "IPSAS", "IPSASB", "IPSASs"	**GFSM2001** 0	**SNA1993** 0	**ESA1995** 0	**BPM5** 0	*(no prior version)*	**EDS2003** 0	**MFSM2001** 0
	GFSM2014 153	**SNA2008** 7	**ESA2010** 3	**BPM6** 2	**PSDS2011** 4	**EDS2014** 10	**MFSM2017** 0 (130 "IFRS")

Table 5.1: *Visibility of IPSASs in international statistical manuals.*

One of the most visible impacts of the Board's harmonization initiative is that references to the Board and its standards (as well as their private cousin) now appear in all of the statistical manuals upon which global economic governance is built. After the publication of the revised SNA2008 and subsequent amendment to the connected statistical manuals, the Board is now recognized in all frameworks discussed earlier. As the most relevant manual to public accounting, the GFSM2014 makes most reference to the Board with over 150 mentions and an entire chapter devoted to IPSASs. However, the overarching SNA2008, ESA2010, and the more specialized manuals all recognize the Board's standards in their most recent versions, where they did not in previous versions (see *Table 5.1*).

This increased visibility is tightly linked to the Board's legitimacy. Beyond above-discussed efficiency gains from harmonization, having the Board's standards appear in statistical manuals used by most countries around the world, is only just shy of a formal endorsement by the IGOs that maintain them. For political reasons, World Bank, IMF, or OECD have difficulty formally endorsing IPSASs as doing so could be seen as implying that, for example, the US's or UK's accounting standards fall short of what is expected.[531] However, with the inclusion of IPSASs in statistical guides, they come as close as possible without issuing a formal endorsement. The IMF's GFSM2014, for example, argues that it focuses on IPSASs over other potential high quality accrual standards, "because IPSASs are international standards and recognized as best practice for public sector financial reporting".[532] The IMF-chaired TFHPSA – which also included Eurostat, OECD, and European Central Bank in its Steering Group – argued in its final report that IPSASs, together with the private sector IFRSs they are based on, are "candidates for 'world generally accepted accounting principles'".[533]

531 Interview 1. Interview 25.
532 International Monetary Fund, *Government Finance Statistics Manual 2014*, 341.
533 TFHPSA, "International Task Force on Harmonization of Public Sector Accounting: Summary of Conclusions" (Paris: OECD, March 8, 2006), 23.

Arguably, giving the Board a seat at the table as the only non-IGO[534] also creates the impression of the IPSASB itself being somewhat equivalent to an IGO. As one former IMF official argued: "There is a trend of organizations like IFAC [the IPSASB's parent organization] to style themselves as international organizations, but they are not – they are private organizations representing private interests".[535] The IPSASB's success to gain a seat at the table, to be referred to in established statistical guidelines, and to be referred to by IGOs as "international best practice" reinforces this image, lending further legitimacy and credibility to the Board and its standards.

Further, the integration of IPSASs into macro reporting makes it more likely that IGO officials will be aware of and draw on the standards. After all, their own organizations have (indirectly) elevated IPSASs to the status of focality in public sector accounting. Beyond simple awareness, however, harmonization of IPSASs and statistical reporting also means that efficiency gains are to be realized when countries draw on IPSASs. For example, GFS reporting will become more accurate when accrual IPSASs are the data source, thus incentivizing the IMF to spread IPSASs. An analysis of all available IMF projects mentioning IPSASs,[536] conducted for this thesis (further elaborated on in Section III.3), found that IMF officials have indeed started drawing on and recommending IPSASs adoption in their projects. For example, in a Technical Assistance Report on budget system reforms in Poland (not currently on IPSAS), IMF officials stressed the importance of harmonized accounting and reporting across the public sector and the argued that IPSASs could "provide for international standards for high-quality financial reporting".[537] The report goes on to draw heavily on IPSASs and highlight the agreement between IPSASs and GFS, without making direct recommendations. In a similar report to Malaysia, officials also highlighted the synergies between IPSASs and GFS, though again without making recommendations.[538] However, the IMF is also involved in directly spreading, rather than subtly recommending IPSASs. In the case of Panama, for example, the IMF's Fiscal Affairs Department "has provided TA [technical assistance] in the area of public accounting, including […] the practical application of the accounting policies established in the International Public

[534] The IASB was initially invited but, according to available TFHPSA minutes seems to not have attended any of the meetings.
[535] Interview 25.
[536] Search was conducted in the IMF database. All relevant project reports were screened for mentions of IPSASs to determine what the nature of the mention was. Data accessible at https://www.imf.org.
[537] International Monetary Fund. Fiscal Affairs Dept., "Republic of Poland: Technical Assistance Report-Progress Report on Budget System Reform–Developing a Standard Chart of Accounts and a Medium-Term Budget Framework," *IMF Staff Country Reports* 20, no. 213 (July 2, 2020): 17.
[538] International Monetary Fund. Statistics Dept., "Malaysia: Technical Assistance Report-Government Finance Statistics Mission," *IMF Staff Country Reports* 19, no. 268 (August 13, 2019).

Sector Accounting Standards".[539] This shows the impacts of the IPSASB's strategies discussed above.

Finally, the Board attaching itself to the international institutional structure for revision of statistical guides, has further deepened its integration into global governance. As one former IPSASB chairman puts it: "The GFS-IPSAS IMF project was important not for what it achieved but for that it existed because it established a relationship with the IMF".[540] While, as seen above, there is evidence for substantial impacts, and while the Board had a good and longstanding relationship with the Fund almost since its inception as the PSC, this statement points to one important fact: the pile-on effects from being recognized in this way can be substantial because the Board is now seen as the obvious forum for public accounting.[541] One more ideational component of this is the closer relationship and understanding it fostered between accountants and economists. Multiple Board members interviewed perceived as one of the big barriers to IPSASs adoption that economists and statisticians often do not appreciate how useful accounting could be to them.[542] The obvious dimension, however, is institutional: The IPSASB has been in close cooperation with the IMF towards the publication of GFSM2014. The Board continues to be involved in those working groups concerned with updating the GFS Manual. As recently as February 2021, the IPSASB requested to be involved in the upcoming SNA update – a decision has yet to be reached. As it stands, cooperation with the Board is clearly envisaged in the upcoming work towards the new SNA 2025.[543] Becoming this reliably embedded into the international process for maintaining global economic governance frameworks was a direct result of the IPSASB's international networking efforts and has already proven beneficial to its legitimacy, reach, and the diffusion of its standards.

II. Constructing Legitimacy: The Quest for IPSASB Governance

To achieve authority the IPSASB needs to be seen as legitimate and credible. Part of its legitimacy and much of its credibility is achieved by making others draw on its standards and through their recognition as international best practice by IGOs and states, as shown above. This has long been recognised by the IPSASB and is reflected also in its current strategic plan.

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539 International Monetary Fund. Statistics Dept., "Panama: 2021 Article IV Consultation," *IMF Staff Country Reports* 21, no. 173 (June 14, 2021): 6.
540 Interview 3.
541 In other words: focal. Büthe and Mattli, *The New Global Rulers: The Privatization of Regulation in the World Economy*.
542 Interview 3. Interview 12.
543 ISWGNA, "2008 SNA Update Issues," No date.

One of the key mechanisms to deliver its strategy and work plan is "rigorous due process [sic]" including working in the public interest.[544]

While much credibility and more pragmatic legitimacy result from strategies discussed above – diffusion into IGO standards, usage in IGO projects – this section explores the efforts to signal normative legitimacy. IGOs such as the IMF and World Bank are in many ways the gatekeepers of legitimacy in economic expertise and global financial governance. For a private standard setter, maintaining legitimacy in part relies on being accredited by these IGOs as a global governance institution acting in the public interest. This is particularly so as the Board is in the business of setting standards with the declared goal of fostering accountability and transparency of governments globally. Doubts around its own accountability, transparency, and governance could undermine its legitimacy. Submitting draft standards for public comment, opening Board meetings to public observers, and having oversight arrangements in place are all supposed to uphold the Board's good governance. However, getting powerful IGO's seal of approval for these processes is likely to be as important as having them in the first place. The Board recognized that its standards do not achieve authority as easily as private standards that have become compulsory and that instead building a "strong image"[545] is required. This shows that the Board is seeking legitimacy and credibility to bolster its work product and is evidence for the theorized efforts by private rulers to seek out IGOs for these crucial resources. As the Board argued, "sovereign governments have their own rules; however, the influence of a knowledgeable international body can be significant".[546] Throughout its history, the Board initiated internal as well as external reviews aimed at lending credibility to its standard setting process. This is evidence for the Board seeking credibility and legitimacy from IGOs.

This section traces the series of governance reviews leading to the current IPSASB oversight structure. It argues that, on the whole, these exercises have been mainly about conferring legitimacy and "accrediting" or rubber stamping the Board's existing procedures rather than making substantial changes to its governance or standard setting. Gatekeeping IGOs participated in all of those reviews, none of which resulted in changes that would give them formal power over the Board or impact the Board's operation or standard setting procedures. They did, however, further the image of the Board as a global governance institution, IGO-like, acting in the public interest, fully embedded into the global financial architecture. They also

[544] Alongside "international recognition" and making sure its standards are relevant to the public sector, see: IPSASB, "Strategy and Work Plan 2019-2023: Delivering Standards. Inspiring Implementation.," 20ff.
[545] Public Sector Committee. Minutes of meeting. June 1996: 7.
[546] Public Sector Committee. Minutes of meeting. June 1996: 7.

made it easier for IGOs like the IMF and World Bank to refer to IPSASs as globally accepted best practice. The below looks at three episodes in particular: for context, it will begin with the IFAC reforms following the Enron scandal before tracing two subsequent IPSASB reviews, the 2004 Likierman review, and the 2014 Governance Review.

II.1. IFAC reforms

The early 2000s saw a series of high-profile accounting scandals with companies overstating their earnings and understating their debt. Among the biggest scandals were the collapse of WorldCom in 2002 and of Enron in 2001. Arguably, much of the fault lay with the auditors and analysts as "reputational intermediaries" who act as gatekeepers for legitimacy and credibility towards investors and the wider public.[547] The Enron scandal led to the collapse of Big 5 accounting firm Arthur Anderson which had served as its auditor. In the US, the Sarbanes-Oxley act was passed as a response to these scandals by further regulating auditing, accounting, analysts, and financial disclosure.[548] However, the wave of scandals did not only catch the attention of national regulators but also of the IGOs overseeing international financial governance. IFAC as the global professional organization for accountants and auditors was the natural point of contact for them.

Around the World Congress of Accountants in November 2002, informal conversations over IFAC reform commenced with international regulators and IGOs. By 2003, IFAC and a group of global regulators led by the International Organization of Securities Commissions (IOSCO) began talks over reforms to improve audit quality and "the need to restore and enhance public confidence in financial reporting and auditing".[549] In November 2003, the IFAC Council approved a reform proposal for the governance of IFAC and its standard setting boards.[550] As two key elements, the reforms established the Public Interest Oversight Board (PIOB) and the Monitoring Group (MG). Among other things, the PIOB is to oversee IFAC boards and committees, approve their terms of reference, confirm members and chairs of internal oversight

[547] John C. Jr. Coffee, "Understanding Enron: It's about the Gatekeepers, Stupid," *Business Lawyer (ABA)* 57, no. 4 (2002 2001): 1405.
[548] See, e.g., Robert M. Grant and Massimo Visconti, "The Strategic Background to Corporate Accounting Scandals," *Long Range Planning*, Reputation and Transparency: Lessons from a Painful Period in Public Disclosure, 39, no. 4 (August 1, 2006): 361–83.
[549] Monitoring Group, "Review of the IFAC Reforms - Final Report," November 8, 2010, 2. Besides IOSCO, the group comprised the Basel Committee on Banking Supervision, the European Commission, the Financial Stability Board, the International Association of Insurance Supervisors, the International Forum of Independent Regulators, and the World Bank; see: Monitoring Group, "Charter," 2005, 13.
[550] IFAC, "IFAC Reform Proposals," September 10, 2003.

committees, as well as the chair of the International Auditing and Assurance Board.[551] Members of the PIOB are ten individuals chosen by the organizations represented in the Monitoring Group. The Monitoring Group consists of those international organizations that co-initiated the reform and is to oversee and evaluate implementation of IFAC reforms as well as the work of the PIOB. It is also granted the opportunity to send observers to and give advisory input to all of IFAC's standard setting boards and committees.[552]

Notably, however, the Public Sector Committee was the only standard setter within IFAC omitted from the scope of the reforms and PIOB oversight. Instead, IFAC envisaged an independent review process for the PSC and "all members of the PSC will be required to sign a declaration that they will act with integrity and in the public interest in the discharge of their role within IFAC".[553] The argument for the omission is that auditing and assurance were the "primary concern of the MG".[554]

II.2. Likierman review and stagnation

At the time of the IFAC reforms, the PSC had just concluded its own internal review launched to determine the future direction of the Committee after completion of the first phase of its standards project.[555] After an internal discussion in September 2001,[556] the recommendations emerging from the PSC's review were presented to the IFAC Board whose reaction was silent acquiescence.[557] Among the recommendations was to consider an external review "within the next two years"[558] with a view towards placing the Committee under an independent Board. It is clear from the review that the PSC recognized the value of an external review that could give it the legitimacy it needed to become focal:

> *"[...] an external review of the PSC and its operations may be necessary to add credibility to recommendations and to provide independent input on how the PSC should operate if it was to be* <u>*the*</u> *international public sector accounting standards setter*".[559]

[551] PIOB funding was agreed to not exceed $1.5m.
[552] Monitoring Group, "Charter."
[553] IFAC, "IFAC Reform Proposals," 25.
[554] IFAC, 25.
[555] Public Sector Committee. Minutes of meeting. April 2001.
[556] Public Sector Committee. Minutes of meeting. September 2001.
[557] Public Sector Committee. Minutes of meeting. November 2001.
[558] Public Sector Committee. Minutes of meeting. September 2001: 9.
[559] Public Sector Committee. Minutes of meeting. November 2001.: 9 (emphasis in the original).

The IFAC reforms then provided the opportunity for the PSC to get its external review. Omitting the PSC from its reforms, IFAC tasked its Chief Executive, former IFAC Chairman and initiator of the standards project, Ian Ball, to conduct a review of the committee during 2003.[560] Upon receiving the news, the PSC asked IFAC for an external review[561] which its Board granted and Ian Ball begam searching for a review chair.[562] In late 2003, the review committee was established. Led by Sir Andrew Likierman[563], Head of Accounting in the UK Treasury, the committee consisted of Ian Ball, outgoing PSC chair Ian Mackintosh, Simon Bradbury, the World Bank observer on the PSC as well as a representative from the US Governmental Accounting Standards Board and the Accountant-General of Tanzania.[564] Oversight was only one of the issues it was set up to explore and hence what came to be known as the "Likierman Review", tabled in June 2004, makes a host of substantial recommendations about the direction of the PSC (which adopted the name "IPSASB" as a result of the review).[565] On oversight, the recommendation of the panel was to bring the IPSASB under the aegis of the PIOB established as part of the IFAC reforms and to modify PIOB membership "to reflect public sector knowledge and experience".[566] The panel argued this was preferable over a second option of establishing a separate oversight body. The IPSASB itself concured and emphasized the importance of having public sector representation on the PIOB.[567]

However, no progress was made on actually bringing the Board under the oversight of the existing PIOB. The issue came up occasionally in IPSASB meetings with members expressing concern at the lack of progress.[568] For example, when the 2008 financial crisis posed an opportunity for the Board to advertise for strong accrual accounting standards, Board members discussed the need to make sure its own transparency and oversight are adequate.[569] Yet, it remained at that time the only IFAC board without external oversight by the PIOB which has IPSASB members noting that it "seemed somewhat ironic for a public sector standard setting

[560] Public Sector Committee. Minutes of meeting. November 2002. Ball had been appointed IFAC CEO in early 2002. He was also designated liaison between the PSC and the IFAC Board, see: Public Sector Committee. Minutes of meeting. March 2002. By the PSC, this was also taken as a signal of greater recognition within IFAC, see: Public Sector Committee. Minutes of meeting. April 2003.
[561] Public Sector Committee. Minutes of meeting. April 2003.
[562] Public Sector Committee. Minutes of meeting. July 2003.
[563] Then-boss of future IPSASB chairman Ian Carruthers.
[564] Public Sector Committee. Minutes of meeting. November 2003.
[565] Andrew Likierman, "Report of the Externally Chaired Review Panel on the Governance, Role and Organization of the International Federation of Accountants Public Sector Committee," June 2004.
[566] Likierman, 18.
[567] Public Sector Committee. Minutes of meeting. July 2004.
[568] See, e.g., International Public Sector Accounting Standards Board. Minutes of meeting. November 2005. International Public Sector Accounting Standards Board. Minutes of meeting. March 2006. International Public Sector Accounting Standards Board. Minutes of meeting. June 2008.
[569] International Public Sector Accounting Standards Board. Minutes of meeting. October 2008.

board not to be subject to public oversight".[570] The next opportunity for raising the issue was then presented by the 2010 review of the implementation of the IFAC Reform. As part of the process, both IFAC and PIOB issued self-evaluations. IFAC reiterated its wish for the IPSASB to be taken under the remit of the existing oversight board[571], while the PIOB stated that it could "in principle"[572] take on this task. However, when the Monitoring Group issued its draft report for comment, IPSASB oversight was not mentioned.[573] Both IFAC and IPSASB, as well as a few national accounting bodies stated their disappointments at this in their responses to the draft report,[574] but the MG in its final report rejected the issue of PIOB oversight of IPSASB stating that it "has not taken into its agenda the matter of revisiting this scope provision of the Reforms".[575]

This demonstrates again that the most vocal and most persistent actor demanding oversight was the Board itself while IGOs seemed disinterested and unwilling to introduce reforms. At first sight, this runs counter to intuition as one would expect states and IGOs to want to rein in the Board – or at least not have it be the only IFAC board explicitly *exempt* from oversight. The story does, however, fit with the argument of strategic international networking advanced in this chapter.

On the one hand, the IGOs involved, have a more limited interest in oversight than the Board. As mentioned in IFAC's initial reform proposals, the focus of the MG is auditing and assurance, not public accounting.[576] Over the seven years that passed from IFAC tabling the reform proposals until the MG's review, IPSASs diffusion had progressed – not least among IGOs who are increasingly using IPSASs for their own accounting – and World Bank and IMF were increasingly referring to IPSASs in their projects. With the release of SNA 2008, IPSASs had also begun diffusing into international statistical guidelines. However, with the exception of World Bank and European Commission, the majority of IGOs represented in the MG had few points of contact with IPSASs as they were focused on the private sector and banking (IOSCO, Basel Committee) and on activities performed by the profession other than accounting

[570] International Public Sector Accounting Standards Board. Minutes of meeting. June 2008: 4.
[571] IFAC, "The Monitoring Group's Review of the IFAC 2003 Reforms: IFAC's Response" (New York, November 25, 2009).
[572] PIOB, "The PIOB Contribution to IFAC Reform - A Self-Assessment for the Monitoring Group Review," February 4, 2010, 17.
[573] Monitoring Group, "Review of the IFAC Reforms - Consultation Paper," June 10, 2010.
[574] See Monitoring Group, "Comment Letters to the 'Review of the IFAC Reforms' Consultation Paper," October 26, 2010.
[575] Monitoring Group, "Review of the IFAC Reforms - Final Report," 18.
[576] IFAC, "IFAC Reform Proposals."

(assurance, audit). Furthermore, for IGOs like World Bank and IMF, there were potential legal considerations in participating in formal oversight over a standard setting body that is not formally endorsed by their own boards of directors. Besides this, there are also a few technical considerations as to whether the PIOB is best suited for overseeing public sector standard setting due to their private sector focused expertise. The PIOB suggested multiple times that it might be up for the challenge but did admit "significant conceptual and practical clarification[s]" are necessary – such as clarifying the "definition of 'public interest'".[577]

On the other hand, the IPSASB has a strong interest in driving the establishment of oversight arrangements. As argued above, the Board has recognized the importance of IGOs as gatekeepers of legitimacy and credibility. It is crucial to the acceptance and diffusion of its standards, that the Board is seen as legitimate by its constituents. Oversight arrangements maintained by high-profile IGOs are a valuable seal of approval. As the minutes of one Board meeting during the IFAC Reforms evaluation state: "Oversight is about trying to get to the credibility of the due process [sic] and ensuring the output is credible to stakeholders". [578] With the continued spread of its standards, and more governments considering adoption, the Board receives direct feedback about the importance of oversight from its stakeholders.[579] Getting oversight arrangements that gain wide consensus in place early on can also help pre-empt more intrusive governance changes later on.

II.3. Oversight at long last: the IPSASB governance review group

One last rejection by the Monitoring Group to put IPSASB under the oversight of the PIOB came in 2013. In a review of IFAC governance launched in 2012, the Monitoring Group asked constituents whether the PIOB should assume IPSASB oversight. While private sector respondents seemed to favor the move, those representing the public sector were generally against it,[580] often arguing that oversight should be through public sector representatives.[581] After mixed responses received, the Monitoring Group organized a roundtable with stakeholders on IPSASB oversight. It concluded that MG and PIOB were "not best suited for

[577] PIOB, "The PIOB Contribution to IFAC Reform - A Self-Assessment for the Monitoring Group Review," 18.
[578] International Public Sector Accounting Standards Board. Minutes of meeting. December 2009: 18.
[579] For example, when New Zealand is considering adopting IPSASs, see: International Public Sector Accounting Standards Board. Minutes of meeting. September 2009: 25.
[580] Monitoring Group, "Monitoring Group Statement on Governance," March 28, 2013.
[581] DGFiP, "Response to the Public Consultation on the Governance of the Monitoring Group, the PIOB and the Standard Setting Boards and the Compliance Advisory Panel Operating under the Auspices of IFAC," June 22, 2021.

IPSASB governance"[582] and that adjusting them might "risk the realization of the objectives for which [they] were originally created".[583]

However, at the roundtable, World Bank and IMF signaled their willingness to further look into IPSASB governance. This was also in response to roundtable participants arguing that a recent communiqué by the G20 designated them to supervise public sector reporting. [584] They referred to a communiqué issued in Moscow in February 2013 by the G20 finance ministers and central bank governors in response to the sovereign debt crisis. The relevant paragraph reads:

> "*In pursuit of our goal of strengthening the public sector balance sheet, work is needed to better assess risks to public debt sustainability. This includes, inter alia, taking into account country-specific circumstances, looking at transparency and comparability of public sector reporting, and monitoring the impact of financial sector vulnerabilities on public debt. We look forward to an update from the IMF and the World Bank on these issues according to their respective mandates*".[585]

As a result, the IPSASB Governance Review Group was formed. It is jointly chaired by IMF, OECD, and World Bank, and also attended by members of the Financial Stability Board, IOSCO, and INTOSAI, as well as observed by Eurostat, the IFRS Foundation, IFAC, and the IPSASB. The Review Group met for the first time in May 2013 in Paris.[586] The process was welcomed by the Board[587] and there seemed to be a lot of good will on all sides as well as a "desire to ensure that the IPSASB's work and processes are not interrupted but rather enhanced by any oversight structures".[588]

When the Review Group tabled its final report, its main recommendation was the establishment of the Public Interest Committee (PIC) which was to be staffed with representatives from IGOs and other experts to provide oversight of the IPSASB's standard setting process.[589] In practice, the PIC ends up not having any formal authority over the Board, remaining restricted to non-binding recommendations. This is both because IGOs can for political reasons not endorse the

[582] Monitoring Group, "Monitoring Group Summary of 27 February 2013 Roundtable on Public Sector Accounting Standard Setting," March 28, 2013, 5.
[583] Monitoring Group, 5.
[584] Monitoring Group, "Monitoring Group Summary of 27 February 2013 Roundtable on Public Sector Accounting Standard Setting."
[585] G20, "Communiqué: Meeting of Finance Ministers and Central Bank Governors" (Moscow, February 15, 2013), 3.
[586] International Public Sector Accounting Standards Board. Minutes of meeting. June 2013.
[587] International Public Sector Accounting Standards Board. Minutes of meeting. December 2013.
[588] International Public Sector Accounting Standards Board. Minutes of meeting. June 2014: 3.
[589] International Public Sector Accounting Standards Board. Minutes of meeting. March 2015.

IPSASB formally, and because of the fact that formal participation of IGOs is a much less flexible affair, meaning "[…] any stronger legal wording in the governance arrangement might lead to the boards of the PIC members having to approve all decisions of the PIC in relation to governance".[590] The PIC's terms of reference make clear the toothless nature of the oversight arrangement:

> "[…] *10. Committee members shall serve in an ex officio capacity and their views shall not be taken to represent the views of their parent organizations.*
> *12. The Committee's recommendations shall constitute non-binding advice to IFAC and the IPSASB. […]*
> *14. The Committee's recommendations shall not necessarily represent the official position of the parent organizations of its members […]*
> *21. The Committee will not have a budget. Each member of the Committee will pay its own expenses related to its participation in the Committee's operations.*
> *22. The Committee's members may terminate the Committee at any time by consensus of its members".*[591]

One can argue that the represented IGOs hold significant de facto power over the Board as they could threaten of withdrawal from the PIC in case of non-compliance which would "greatly impair the credibility of the IPSASB".[592] However, looking at the recommendations the PIC has issued since, its oversight seems to be hardly ever anything other than rubber-stamping. Its most consistent – and in fact only – critique is that the Board could do better in terms of regional and gender representation.[593]

By its very design, the PIC is not set up to steer the Board but to lend credibility. As one board member argued in an interview: "one of the reasons for the governance changes to the Board was not necessarily to change our processes but to show that we have a due process [sic]".[594] The Governance Review thus ended with an entirely favorable result for the Board. IGOs confer credibility and legitimacy onto the IPSASB without any noteworthy constraints in return.

[590] International Public Sector Accounting Standards Board. Minutes of meeting. June 2015: 12.
[591] Public Interest Committee, "Terms of Reference: International Public Sector Accounting Standards Board (IPSASB) Public Interest Committee," 2 f.
[592] International Public Sector Accounting Standards Board. Minutes of meeting. June 2015: 12.
[593] See, e.g., Public Interest Committee. Minutes of meeting. March 2016. Public Interest Committee. Minutes of meeting. March 2017. Public Interest Committee. Minutes of meeting. February 2018.
[594] Interview 12.

III. IGOs as Intermediaries in Diffusion

As theorized in Chapter 2, one factor that may contribute to a private regulator's success is a capacity deficit of the regulatory target. Therefore, one determinant in the adoption of accounting standards is administrative tradition and capacity, in particular the extent to which a country has an existing and stable accounting system.[595] Rudimentary or non-existent accounting systems, low administrative capacity[596] to develop standards, and a general dependence on external financial and technical assistance make developing countries a natural target for the Board's diffusion efforts. While cross-pollination and multiplication effects are desired and observed results of network-building, for analytical purposes, the Board's efforts can be roughly divided into two categories: the first cluster of strategies are more direct – issuing a cash basis standard useful to developing countries, providing first-adoption and transitional guidance, developing domestic accounting professions – and will be discussed in Chapter 6. The second type of strategy is more immediately centered around enlisting IGOs as regulatory intermediaries.

III.1. Accounting for external assistance and the cash IPSAS

International organizations such as World Bank, IMF, and regional development banks are in many ways global gatekeepers of both funding and knowledge. As international donors and lenders, they are in a position of significant leverage over countries' development and reforms. They do not only decide which projects are worthy of funding but are often also the ones that provide hands-on assistance by sending teams of experts. Their project and technical assistance combined with their global reach make them the primary diffusers of global knowledge on economics and governance. As this thesis argues, by targeting IGOs as network multipliers that sit upstream in supply chains for economic governance models, the IPSASB can extend its reach and access well beyond what it could achieve on its own.

Leveraging IGOs as intermediaries for its standards is not a recent strategy for the Board. This approach can already be identified in the early days of the Public Sector Committee and of IFAC more generally. In October 1985, a year after the founding of the PSC and about a decade before the inception of its standards project, then-IFAC president-elect Richard Wilkes

[595] See Klaus Lüder, "A Contingency Model of Governmental Accounting Innovations in the Political-Administrative Environment," *Research in Governmental and Nonprofit Accounting* 7 (1997): 99–127.
[596] A barrier to successful implementation but a facilitator of adoption.

addressed the closing session of the World Congress of Accountants promoting exactly that strategy, arguing:

> "*Also in the short term, I believe we should enlist the support of international agencies in pressing for the adoption of our standards. I find it very encouraging that IFAC already has established good relations and dialogues with agencies such as the World Bank and the Asian Development Bank. These agencies, as part of their activities provide funds to support project in many countries. These funds have to be accounted for. What better basis for that accounting, than a requirement for compliance with international accounting and reporting standards.*"[597]

The issue of "aid accountability" came up occasionally in early debates and IFAC thought that the PSC would have a "small role to play"[598] in it. The PSC's parent organization thus went on to establish a "Developing Nations Task Force" to further expand its reach as a professional body. Once the PSC/IPSASB's standards project was underway, the issue of developing nations became a regular part of Board meeting discussions. Crucially, when, in 2000, the PSC decided to move towards accrual standards exclusively, it voted unanimously that transitional guidance from cash to accrual should be developed, as well as a single cash basis standard next to a full suite of accrual basis standards.[599] The cash basis IPSAS was to serve as a starting point for those countries wishing to move towards full accrual IPSASs but are not ready to make that move immediately. The accounting treatment of development assistance was a major consideration in the development of the cash basis standard.[600]

Accounting for disbursed external funds became a standalone issue in late 2001. The PSC was approached by representatives from the OECD Development Assistance Committee's Task Force on Donor Practices and the Multilateral Development Banks' (MDB) Financial Management and Harmonization Working Group. The IGOs asked the "PSC to develop guidance on Accounting for Development Assistance"[601] and the PSC agreed to develop a project proposal which was then completed and send to the OECD and MDB in early 2002.[602] The project was supposed to provide a standard for how recipients of development assistance

[597] IFAC Council. Minutes of meeting. October 1987: 8.
[598] IFAC Council. Minutes of meeting. October 1992: 9.
[599] Public Sector Committee. Minutes of meeting. January 2000.
[600] Public Sector Committee. Minutes of meeting. January 2000.
[601] Public Sector Committee. Minutes of meeting. November 2000: 7.
[602] Public Sector Committee. Minutes of meeting. March 2002. Public Sector Committee. Minutes of meeting. July 2002. PSC members also gave presentations on the proposed project in other contexts such as to the World Bank, see ibid.

should report the use of funds to donor organizations. As the PSC was at this time developing the cash basis IPSAS, it decided to integrate the Development Assistance project with the cash IPSAS.[603] With some delay, a Project Advisory Panel, led by the PSC chair and consisting of developing countries and donor agencies, was set up[604] and a consultant hired to help with the project.[605] The PSC later expanded the project to include all "external assistance" and a first Exposure Draft (ED24) was issued for comment in 2004,[606] revised and reissued (as ED32) based on comments received, and finally approved as an IPSAS in November 2007 – to be integrated into the previously issued cash basis IPSAS.[607] The promise of harmonized reporting for IGO country projects was "compliance cost relief"[608] for both preparers and users: countries would be able to use the same system whoever funds a project, and IGOs could expect to receive standardized financial reports across project countries.[609]

III.2. The complexity of orchestration

The above highlights the complexities of orchestrator-intermediary relationships. As shown, it was the PSC that identified development assistance was of strategic importance for the spread of its standards. It began developing rules and convincing IGOs of their benefits, ultimately successfully enlisting them as regulatory intermediaries: As will be shown in the next section, IGOs like the World Bank and IMF have since significantly contributed to delivering the IPSASB's standards to their regulatory targets – both through coercion and persuasion. The IPSASB writes the rules, IGOs serve as the supply chain. Once initiated, however, the Board's regulatory partners were also enlisting the Board's expertise when they determined this was useful. While they could not exercise any formal pressure on the Board, they successfully asked

[603] Public Sector Committee. Minutes of meeting. November 2002.
[604] Public Sector Committee. Minutes of meeting. April 2003. Public Sector Committee. Minutes of meeting. July 2003; Public Sector Committee. Minutes of meeting. November 2003.
[605] The consultant hired was a former Comptroller of the Asian Development Bank. This again shows the importance of revolving doors. Public Sector Committee. Minutes of meeting. April 2003.
[606] Public Sector Committee. Minutes of meeting. July 2004. Public Sector Committee. Minutes of meeting. November 2004.
[607] International Public Sector Accounting Standards Board. Minutes of meeting. March 2006. International Public Sector Accounting Standards Board. Minutes of meeting. July 2006.
[608] Public Sector Committee. Minutes of meeting. July 2004.
[609] As described in Chapter 2, the cash-based standard is being used by a relatively large set of countries. However, judging by Board debates in the context of its routine revision in 2015, expectations for adoption seems to have been lower than the Board expected, see: International Public Sector Accounting Standards Board. Minutes of meeting. September 2013. International Public Sector Accounting Standards Board. Minutes of meeting. March 2015. The Board concluded that the mandatory nature of requirements for external assistance reporting presented a hurdle for preparers and users, see: ibid. As a consequence, the Board decided to move the external assistance provisions within the cash-basis IPSAS from "requirements" to "encouragements", see: International Public Sector Accounting Standards Board. Minutes of meeting. June 2015. International Public Sector Accounting Standards Board. Minutes of meeting. September 2017.

the Board to develop further guidance on the subject of development assistance, as described above. This constitutes a soft form of orchestration by influencing what the Board works on. Thus, orchestration is a complex give-and-take and the IPSASB's status as orchestrator is not pure or total.

However, as argued in Chapter 2, in a relationship where the private actor is a singular or focal rule-maker, and IGOs merely rule-supporters, the private actor will hold the most power in the relationship. This is because, in this case, IGOs are dependent on the expertise of the rule-maker and do not have the choice of forum because no other suitable rule-makers exist.[610] Additionally, whether directed or not, rule-makers get to actually *write the rule* – a rule to which there is no alternative if they are focal or singular. Therefore, the IPSASB as a focal rule-maker has the "power of the penholder".[611] At the same time, while the IPSASB depends on IGOs' power over states to diffuse its standards, and benefits from IGOs' material support,[612] it also has a choice IGOs do not have: It can choose to enlist other actors instead. For example, if the IMF makes unreasonable demands, there is always the World Bank to diffuse its standards and lend resources – or the Asian Development Bank, the African Development Bank, the Inter-American Development Bank, the OECD, and a range of other such organizations. Development and public financial management are crowded spaces that offer the IPSASB plenty of governmental organizations to choose from. Further to this, as explained in Chapter 6, the IPSASB can draw on its own networks including public and private organizations at national and subnational levels globally. The power of the accounting profession in particular drastically decreases the Board's reliance on IGOs as the only regulatory partners. Taken together, these factors empower the Board vis-à-vis the IGOs it engages.

Further to this, interviews with former Board Members and IGO officials provide evidence that, indeed, the Board is not simply commandeered for whatever endeavor IGOs would like it to undertake. The IPSASB will resist when IGO requests do not align with its interests.[613] When,

[610] Mattli and Seddon, "Orchestration along the Pareto Frontier."
[611] Mattli and Seddon, "The Power of the Penholder: The Missing Politics in Global Regulatory Analysis."
[612] In fact, taking on the above-discussed external development assistance project helped the IPSASB secure more funding. Always considered key funders and constituents by the Board, development Banks stepped up their funding due to the external assistance project with the Board receiving additional funding from the World Bank and Inter-American Development Bank, see: Public Sector Committee. Minutes of meeting. September 2001. Public Sector Committee. Minutes of meeting. July 2004. International Public Sector Accounting Standards Board. Minutes of meeting. July 2006.
[613] According to the "correlated goals assumption" in orchestration theory, a misalignment of interests can put strain on or destroy a regulatory relationship between orchestrator and intermediary. As Abbott and colleagues state: "Correlated goals are the cement of the soft O-I relationship". Abbott et al., "Orchestration: Global Governance through Intermediaries," 18.

for example, the UN system was beginning work on adopting IPSASs for its internal accounting, it approached the Board to get observer status. Having received it, its observers were trying to steer the Board's business towards topics relevant to the issues the UN was facing in IPSAS adoption. The IPSASB Chairman reacted by taking away their seat at the table and banishing all observers to the public gallery.[614] Previously, the Board had already denied a suggestion by the UN to allow international organizations to cherry pick in adopting IPSASs noting that for a "set of accounts to be described as complying with IPSASs, the accounts must comply with all IPSASs".[615] This makes clear that the Board retains its agency even when dealing with a powerful IGO such as the UN. A former Board observer for the UN suggested that when IGO and IPSASB goals are correlated, like in the External Assistance case described above, IGO funding buys influence in terms of the topics the Board will work on but not in terms of outcomes of standards.[616] One former IPSASB Chair argued, "IOs were good donors"[617] that did not pressure the Board into anything.

This discussion demonstrates the usefulness of the nuanced account of orchestration developed in Chapter 2. Shifting the focus onto the supply side and highlighting private power and its sources reveals a more accurate picture of the regulatory relationships between private and public actors and helps explain the puzzling private regulation of the public sector. Had one only focused on the OECD and MDB's request for the IPSASB to develop standards for reporting on development assistance, this example would look like a straightforward case of IGO orchestration: accounting standards made to order. This account, however, would have missed that the Board had been working for decades to enlist IGOs by producing standards explicitly relevant to developing economies and then actively convincing IGOs of their benefits. Taking supply-side perspective helps reveal the nuance and private power inherent in the relationship.

III.3 Impacts of IGOs on diffusion

The direct impacts IGOs can have on the diffusion of IPSASs becomes visible when taking a closer look at what they do when they interact with countries around the world on public financial management (PFM) reform projects. This section argues that IGOs, in particular the IMF and World Bank, have had an active role in either recommending, demanding, or directly

[614] Interview 3.; International Public Sector Accounting Standards Board. Minutes of meeting. March 2008.
[615] Public Sector Committee. Minutes of meeting. November 2002.
[616] Interview 23.
[617] Interview 2.

implementing IPSASs in countries around the world. Rather than being an official policy oof the Fund or Bank, it is the individuals who lead and populate country and project teams on whom it depends whether IPSASs are pushed in assistance or reform projects. The below provides evidence for both before drawing conclusions.

The IMF and World Bank interact frequently with countries on PFM-related matters because of their roles of providing surveillance, technical assistance, as well as grants and lending. Given the above, it is hardly surprising that the officials conducting these operations would at least occasionally draw on IPSASs – at a minimum those IPSASs that their institutions actively supported. That they do already becomes clear in the context of the context of the above-discussed project on external assistance, as well as the cash basis standard. In these contexts, IGOs assisted with "field testing" of the draft cash standard,[618] and the external assistance standard which ended up being tested in Ghana, Uganda, Nigeria, and Estonia.[619] Similarly, in 2001, the IPSASB Board Member from the US attended a development assistance seminar in Istanbul, reporting back that it had "provided very good exposure to the Standards Project to advisers working in a number of countries, and that the advisers often had direct contacts to the ministries of finance and others responsible for preparing financial statements".[620] This illustrates well how establishing connections with IGOs allows the Board to extend its reach towards domestic decision-makers.

To further explore the success of this supply chain the IPSASB built by enlisting IGOs, information was collected on IMF and World Bank projects referring to IPSASs. Utilizing the IGOs' online databases, information on all projects containing the key word "IPSASs" were collected and examined. Also collected were World Bank PFM reform projects for all those countries for which IFAC has data on adoption status (as discussed in Chapter 2), independent on whether they mentioned IPSASs.[621] In those latter project reports, any reference to international accounting standards for the public sector – and other such indirect ways of saying "IPSASs" were qualitatively examined. Included in the search were mainly projects that were either part of the IMF's country surveillance ("Article IV consultations"), or Technical Assistance, and those that were part of reform projects by the World Bank. Not usually included were projects like Transparency Evaluations by the IMF, unless they made direct recommendations. All collected projects were qualitatively examined and it was noted in which

[618] Public Sector Committee. Minutes of meeting. April 2001.
[619] International Public Sector Accounting Standards Board. Minutes of meeting. November 2007.
[620] Public Sector Committee. Minutes of meeting. April 2001: 5.
[621] A total of 180 countries. For 81 of those, relevant projects were found.

countries the IMF or World Bank had had at least one project or report that either directly implemented IPSASs or made recommendations that IPSASs might help that country's situation.[622]

Table 5.2 represents an augmented version of *Table 4.2* presented in Chapter 4. Countries with relevant IPSAS-projects are set in bold. This is to give a descriptive and visual impression of how widespread IPSAS-advocacy by IGO officials is. However, this should not be taken as saying that for each of the marked countries, IGO projects were the direct (or even indirect) cause for adoption. To make such a claim, in depth process tracing of adoption processes in over 80 countries would have had to be conducted.[623] The table shows that of those countries that adopt IPSASs without or some modifications, over half (62.5%) have had IGO support or advice recommending IPSASs. Each quadrant of the table lists the percentage of countries with IGO projects. It should be noted that a total of 11 countries for which relevant projects were found are not represented on the table because IFAC databases did not provide data on their adoption status and accounting basis.

From the qualitative analysis of documents, as well as interviews with relevant officials it becomes clear that, while both IGOs push IPSASs, the World Bank is more frequently the more direct supply chain for IPSASs. This is because the Bank, contrary to the IMF, runs hands-on country-level PFM reform projects. Thus, in many cases, World Bank officials see themselves drawing on IPSASs as a ready-made component solution for PFM reform. This is also so because World Bank project teams can be more diverse in terms of the backgrounds of their members and will often involve staff members or independent consultants who are not economists, but accountants or other experts.[624] As a former IPSASB Chairman remarked, "you need champions in big organizations".[625] Their greater need for technical and financial assistance, as well as lack of sophisticated existing systems, makes developing and middle-income countries prone to adoption.[626] These experts will often be more familiar with IPSASs, implementing them wherever they go.[627] For example in cases like Belarus and Albania, where

[622] A decision was made to cast the net widely in order to show the range of influence IGO projects can have. The data presented here cannot be used to argue that for each of these cases, the adoption decision was caused by the IGOs' involvement. To do so would have meant undertaking minute process tracing for over 80 counties for which relevant projects were found.
[623] See also fn111 above.
[624] Interview 23. Interview 31.
[625] Interview 2.
[626] Interview 35.
[627] Interview 33.

World Bank PFM reform projects are underway adopting IPSASs.[628] While, as argued, often functioning as a less direct supply chain, there is also evidence for the IMF being directly responsible for adoption in certain cases. For example, in assistance to Portugal in the wake of the sovereign debt crisis IMF officials were instrumental in pushing Portugal to adopt IPSASs, says one interlocuter with personal knowledge of the situation.[629] Another example is technical assistance to St Kitts and Nevis where both IMF and World Bank strongly recommended IPSAS adoption.[630]

These examples show the immediate and direct impacts the enlistment of IGOs has for IPSASs diffusion. Besides providing the Board with credibility and legitimacy, IGOs like World Bank and IMF, act as major supply chains for the IPSASB's standards around the world – especially among developing and middle-income countries. As this chapter has shown, the construction of these supply chains – the enlistment of IGOs – took tireless and sustained, decades-long (net-)work by the IPSASB. The following section will briefly conclude before Chapter 6 explains how these international supply chains are joined by an IPSASB-orchestrated global network of organizations operating at national and subnational levels.

Conclusion

This chapter has shown how the IPSASB managed to enlist powerful IGOs as suppliers of its standards and as purveyors of international credibility and legitimacy. The main ingredients of this strategy were the same throughout the Board's history: attaching its standards to existing IGO projects and products, being responsive to IGOs needs without becoming ruled by them, and getting IGOs' seal of approval wherever possible.

The above has elaborated on each of these ingredients by telling the stories of IPSASs diffusion into international macroeconomic statistics, pushing for public oversight, and developing guidance on accounting for external assistance respectively. Each of these stories demonstrated that constructing a global network to diffuse private standards is a delicate enterprise and one

[628] International Monetary Fund. Fiscal Affairs Dept., "Republic of Belarus: Technical Assistance Report," *IMF Staff Country Reports* 18, no. 261 (December 2018); World Bank, "Albania: Project Information Document (PID) - Identification/Concept Stage," July 21, 2016.
[629] Interview 35. See also, IMF, "Portugal - Memorandum of Economic and Financial Policies," May 17, 2011. The comparison with Greece, which was receiving IMF assistance at the same time for the same reasons, shows that the push for IPSASs is not formal policy at the IMF but depends on who leads the projects on the ground. While Portugal was quickly pushed to adopt IPSASs, Greece was not.
[630] International Monetary Fund, "St. Kitts and Nevis: 2014 Article IV Consultation and the Seventh and Eighth Reviews Under the Stand-by Arrangement and Request for Waivers of Applicability and Nonobservance of Performance Criterion-Staff Report; Press Releases," *IMF Staff Country Reports* 14, no. 86 (2014): 1.

that essentially relies on convincing IGO gatekeepers of knowledge and diffusion channels. However, as the above has shown, the Board's agency remains clearly visible in each of the stories – even when its work is seemingly being directed by IGOs as in the case of accounting for external assistance.

The next chapter will take a closer look at the domestic networks that complete the global supply chains for ISPASs.

	National standards	Reference to IFRS	Reference to IPSAS	Modified IPSAS	No modification
Cash	**Bangladesh** **Belize** Ethiopia Germany Guyana **India** Ireland Jamaica Kiribati **Lebanon** Luxembourg **Malta** Montenegro Mozambique **Nepal** Netherlands **North Macedonia** Norway Sao Tome and Principe Saudi Arabia Singapore Slovenia Sudan **Trinidad and Tobago** Tunisia Zimbabwe *33%*				Anguilla **Bhutan** British Virgin Islands Central African Republic Cyprus Ivory Coast **Jordan** Kosovo **Laos** **Lesotho** **Liberia** **Malaysia** **Maldives** Montserrat **Nicaragua** **Pakistan** Palestine Samoa **Sierra Leone** **Solomon Islands** **Somalia** **St. Kitts and Nevis** Tonga Turks and Caicos Islands **Zambia** *56%*
Partial Accrual	**Albania** Aruba **Belarus** Bolivia **Botswana** Bulgaria Burkina Faso China Taiwan Croatia **El Salvador** Eswatini Haiti Hungary Italy **Kyrgystan** **Poland** Romania South Africa **Sri Lanka** St. Lucia **St. Vincent and the Grenadines** Togo **Tuvalu** *30%*		Antigua and Barbuda **Armenia** **Azerbaijan** Bahamas **Bosnia Herzegovina** Chad DRC **Georgia** **Ghana** Greece Guernsey Iran Madagascar Mali **Mexico** **Panama** **Senegal** Slovakia **Tajikistan** **Thailand** United Arab Emirates **Uzbekistan** *50%*	**Gambia** **Mauritius** **Mongolia** Paraguay **Portugal** South Sudan **Uganda** **Vietnam** *75%*	Barbados Burundi **Costa Rica** **Grenada** **Honduras** **Kazakhstan** **Kenya** **Malawi** **Rwanda** **Serbia** **Sychelles** *82%*
Accrual	American Samoa Argentina Belgium Canada Denmark Federated States of Micronesia Finland France Guam **Guatemala** Hong Kong Japan Marhsall Islands **Moldova** Northern Mariana Islands Palau United States **Vanuatu** *10%*	Australia Jersey United Kingdom *0%*	Austria Brazil Cook Islands Czech Republic Ecuador Estonia Holy See **Indonesia** Israel Korea Latvia Peru **Russia** Spain Sweden **Ukraine** *19%*	**Chile** Colombia **Iceland** **Lithuania** New Zealand **Nigeria** **Switzerland** Turkey *50%*	Cayman Islands **Dominican Republic** Phillipines **Tanzania** *50%*

Table 5.2: *Countries by adoption status and accounting basis (countries with IGO projects in bold)*

CHAPTER 6: TAKING ORCHESTRATION DOMESTIC: GLOBAL SUPPLY CHAIN CONSTRUCTION AND IPSASB NETWORKING AT THE NATIONAL LEVEL

The previous chapter showed how the Board leverages IGOs, their tremendous resources, and substantial power to spread its standards. This chapter explores how the Board, through IFAC, leverages the global profession in countries around the world, constructs its own issue-specific networks to get its standards to their intended targets, and co-opts national standard setters and other organizations to increase its capacity and reach. The basic idea remains the same: relying on existing organizations with linkages to regulatory targets or other resources vital to the Board in order to increase its reach far beyond what it could ever achieve by itself. Constructing these supply chains entails enlisting relevant actors by convincing them of the benefits of IPSASs. The chapter will show not only that these efforts are very effective in diffusing standards and regulating public sectors around the world, but also that, even where interests seem naturally aligned, it is not usually the case that relevant actors begin drawing on IPSASs automatically. Instead, their enlistment requires deliberate and sustained (net-)work by the IPSASB. In showing this, the chapter will shed further light on the agency of private actors in getting their standards to their intended targets. Far from setting up a buffet for states to serve themselves, the IPSASB is the driver behind the diffusion of its work product.

The chapter consists of three parts. The first part will explore how the IPSASB leverages the global accounting profession as a supply chain for its standards (I.1). It will also demonstrate the IPSASB's work in continuing to expand the profession into government accounting and to make it more fertile for the spread of IPSASs (I.2). The second part of the chapter will explain how the IPSASB creates its own constituency beyond the accounting profession, often targeting regulatory targets directly. It will first elaborate on what can be called "Board diplomacy" (II.1.) or the tireless travelling of the world by Board members and staff to reach out to public sector representatives directly and engage them in lobbying events around the globe. Then, secondly, it will explore the IPSASB's enlistment (or attempted enlistment) of three important groups of organizations: national standard setters, big accounting firms, and credit ratings agencies (II.2.).

I. The Profession

In sociology, professions have long been recognised as important conduits for ideas and organizational practices. Professions are "claiming jurisdiction" – legally as well as in terms of public opinion – over a specific work area, and the production and application of abstract knowledge to their specific work area.[631] If successful, they may be granted self-regulatory authority and control of training, recruitment, or licensing.[632] Producing a pool of similarly socialized individuals, professions lead to similarity of decision making across organizations and ultimately institutional isomorphism.[633]

Applying these insights to the study of economic policymaking, Christensen has argued that the institutional entrenchment of economists within the state bureaucracy accounts for cross-national variation in market-conforming tax policy. Having been granted authority within the state in the wake of the Great Depression and World War II, economists became increasingly embedded in governments and later acted as vital diffusion channels for monetarist over Keynesian economic ideas flowing from the core of the internationalized economics discipline to professional economists in governments world-wide.[634] Entrenched professionals can be a powerful mechanism to bring ideas and paradigm shifts to bear on policy.[635] Professions can therefore be effective supply chains for standards as well.

The accounting discipline differs from economics in a few important ways. Unlike economics, accounting is not driven by an international academy producing paradigms with global reach. Instead, the accounting discipline is the product of professional accountants in the private sector, beginning with the foundation of professional organizations in the 19th century.[636] While international harmonization driven by the profession is well-documented in business accounting, the picture is more complicated for government accounting.[637] Reasons for this have been discussed in previous chapters. One important reason to further home in on here is

[631] Abbott, *The System of Professions*, 71.
[632] cf. Abbott, 71.
[633] DiMaggio and Powell, "The Iron Cage Revisited."
[634] Christensen, *The Power of Economists within the State*.
[635] Peter A. Hall, "The Role of Interests, Institutions, and Ideas in the Comparative Political Economy of the Industrialized Nations," in *Comparative Politics: Rationality, Culture, and Structure*, ed. Mark Irving Lichbach and Alan S Zuckerman, 1997, 35; Christensen, *The Power of Economists within the State*.
[636] Jones and Pendlebury, *Public Sector Accounting*.
[637] For an account of private sector financial reporting standards, see e.g.: Büthe and Mattli, *The New Global Rulers: The Privatization of Regulation in the World Economy*; Martinez-Diaz, "Strategic Experts and Improvising Regulators."

the fact that government accounting has always lagged behind business accounting in its development and coherence as a profession.

Government accounting has remained underdeveloped as a profession for a variety of reasons that somewhat differ cross-nationally. However, there seem to be a few common factors. First, average citizens are less interested in detailed government financial reports than investors are in balance sheets of businesses. Second, governments tend to set their own accounting standards, as they are sensitive around issues of sovereignty and transparency. Third, in government, there is often more emphasis on budgets than on financial reports and the two systems are poorly integrated in most countries. Finally and relatedly, accounting is often delegated to generic administrators or professionals other than accountants; for example, in countries such as Germany and France, accounting is a domain of law and therefore dominated by lawyers rather than accountants.[638]

This matters because the less organized, coherent, and transnationally connected a profession is, the less likely it is that it can successfully function as a diffusion channel or supply chain for standards as outlined above. As a result, the IPSASB and its predecessor embraced the development of the government accounting profession within the frame of IFAC as one of its key strategies. The stronger its own transnational network of professional accountants in government, the easier it becomes for the Board to diffuse its standards. Especially where accountants do have a role in the bureaucracy, this can establish a direct supply chain into the heart of government and decision-making. If this link becomes stronger, the Board needs to rely less on IGOs to do its bidding thus furthering its independence and agency.

Part I of this chapter will therefore elaborate on IPSASB efforts at utilizing and building the global public accounting profession as a basis for its diffusion network. In the first section, evidence will be presented that these global domestic networks are crucial to the diffusion of the Board's standards (I.1). This global network of member organizations and regional bodies is a powerful extension of the reach and capacity of IFAC and its associated standard setting boards including the IPSASB. Member organizations help with this in at least three ways. First, they act as lobbyists on behalf of the Board providing a diffusion channel for its work products and ideas. Second, they lend material resources that aid in standard-setting and distribution. Third, they provide local expertise and information upstream, helping the Board in keeping an ear to the ground. In the second section, the Board's efforts to further expand the profession

[638] Jones and Pendlebury, *Public Sector Accounting*.

will be traced (I.2). These efforts take the form of two major strategies: first, setting up and expanding the organizational infrastructure required and second, steering education and training.

I.1. Leveraging the profession

I.1.1. Coordinating lobbying efforts of the global accounting profession

Member bodies and regional organizations are seen as "delivery vehicles for IFAC's output".[639] Besides geographical closeness, these bodies are more similar to the respective target governments in terms of language and culture,[640] and have greater knowledge of the national landscape as well as the necessary connections.[641] All this makes them particularly well-suited to "persuade countries to adopt"[642] as a former IPSASB staff member noted. Therefore, regional and domestic accounting bodies are an integral part of both IFAC's and the Board's dissemination strategies.[643] While the standard setting happens at the central level of IFAC, it and its independent boards rely on these organizations to extend their reach to where they need their standards adopted.[644]

IFAC directs the lobbying efforts of the global profession, often mobilizing its members to implement the decided upon strategies. This is not limited to the diffusion of standards but extends across all work areas. For example, members are seen as the "main resource"[645] in IFAC's communications plan where members are encouraged to distribute "easy to use communications pieces on IFAC"[646] to raise visibility in international media as well as certain professional publications, including through distribution of IFAC studies. Similarly, members are given attendance targets to meet for IFAC world congresses[647] and are supposed to generally promote IFAC in their countries.[648]

Both during negotiations on the General Agreement on Tariffs and Trade (GATT) and the General Agreement on Tariffs and Services (GATS), which are of relevance to the profession

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[639] IFAC. Letter to Member Bodies. July 1997: 2; International Federation of Accountants, "Statements of Membership Obligations (SMOs) 1-7 (Revised)."
[640] IFAC Council. Minutes of meeting. October 1987: 8.
[641] Interview 8.
[642] Interview 8.
[643] IFAC. Letter to Member Bodies. July 1997: 2. IFAC Council. Minutes of meeting. November 1988: 14.
[644] IFAC. Letter to Member Bodies. July 1997.
[645] IFAC. Letter to Member Bodies. July 1997: 3.
[646] Ibid.
[647] IFAC. Letter to Member Bodies. December 1995.
[648] IFAC. Letter to Member Bodies. May 1994.

in that they relate to professional services accounting firms provide, IFAC strongly encouraged its members to get involved. In both examples, members were urged to find out the views of their countries' representatives to the negotiation.[649]Around the negotiations for GATS, the IFAC president told members to "find out who your trade negotiators are and meet with them"[650] to let them know the profession's positions. He also noted that some members were successful in having professional accountants included in their countries' delegations which was seen as important especially since most trade negotiators were civil servants not "sufficiently familiar with the profession".[651] In another letter, he reminded members that while IFAC was lobbying WTO officials, it was trade delegations who would be the ones to vote, as well as that it was individual accounting bodies would benefit or suffer the most by whatever they decide.[652] No matter the impacts in this particular case, it demonstrates how the IFAC network functions in practice.

Lobbying governments and delivering IFAC outputs, however, are not only result of informal requests. IFAC has formalized the relationship with both regional organizations and domestic member organizations. Regional organizations as well as others are "IFAC Network Partners"[653] and have signed a memorandum of understanding with IFAC. Network Partners' strategic interests need to align with those of IFAC and their governance and ethics need to be compatible. Those Partners that are meta organizations of professional accountancy organizations are entitled to two observer seats at IFAC Board and Council meetings. As argued above, these Partners are coopted to support the development of the profession and provide conduits for the diffusion of IFAC's standards.[654]

IFAC member organizations, as well as associates seeking membership, are even more formally bound to IFAC. As discussed in Chapter 3, IFAC members are professional accountancy organizations – currently 180 organizations in 135 different countries.[655] Members have a voice through the IFAC council and gain access to the expertise, resources, and support of IFAC. In

[649] IFAC Planning Committee. Minutes of meeting. February 1988. IFAC. Letter to Member Bodies. December 1995.
[650] IFAC. Letter to Member Bodies. December 1995: 2.
[651] IFAC. Letter to Member Bodies. December 1995: 2.
[652] IFAC. Letter to Member Bodies. November 1996.
[653] Current partner organizations include the regional accounting bodies Accountancy Europe, the Confederation of Asian and Pacific Accountants, the Interamerican Accounting Association, and the Pan African Federation of Accountants. Besides these four, ten further professional accountancy organizations are Network Partners, as are five non-accountancy organizations. Among the latter is also the International Organization of Supreme Audit Institutions. A full list can be found here: https://www.ifac.org/who-we-are/membership.
[654] IFAC, "Policy Statement - IFAC Network Partners," September 2021.
[655] "Membership," IFAC Website, June 26, 2018.

turn, members commit to support IFAC's mission, adhere to its constitution and bylaws, be financially viable, pay membership dues to IFAC, as well as comply with the Statements of Membership Obligations (SMOs). SMOs are set by the IFAC Board and compel members to support the implementation of IFAC-issued standards, as well as disciplinary systems and certain professional standards within their own organization.[656] Compliance with objectives set out in SMOs is assessed regularly via reports filed by the members. SMOs are an important formalization of the IFAC network and therefore the diffusion of its standards.

There are seven SMO areas. One compels members to establish quality assurance systems (SMO 1). One mandates certain mechanisms for internal investigation and discipline (SMO 6). The remaining five oblige members to work towards the implementation of each of IFAC's standard setting board's output: the International Accounting Education Standards Board (SMO 2), the International Auditing and Assurance Standards Board (SMO 3), the International Ethics Standards Board for Accountants (SMO 4), the IPSASB (SMO 5), as well as the IFRS Foundation's International Accounting Standards Board (SMO 7). The specific actions member bodies are obliged to undertake depend on the degree of responsibility their respective jurisdiction gives them over the individual SMO areas. If their jurisdiction gives them direct responsibility for standards in a certain area, they are to directly implement the respective IFAC-supported standard. If they have no formal-legal authority in an area, they are obliged to use their "best endeavors"[657] to "encourage"[658] adoption, as well as assist implementation where appropriate. Should they share responsibility with another body, they are to implement standards directly where they can, and lobby for adoption wherever they do not have direct means of implementation.

Turning more specifically to the IPSASB, being constituted as one of IFAC's independent standard setting boards has given it access to its vast professional network, dramatically extending its reach beyond what would otherwise be possible. SMO 5 mandates all 180 IFAC member organizations to work towards the adoption and implementation of IPSASs in their jurisdiction. A review of SMO reports evidences the significant and sustained efforts of domestic accountancy bodies to lobby their governments and otherwise facilitate the adoption and implementation of IPSASs. These efforts will often include outreach activities such as

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656 International Federation of Accountants, "Statements of Membership Obligations (SMOs) 1-7 (Revised)."
657 International Federation of Accountants, 4. Best endeavors are defined to have been used when a member body "could not reasonably do more than it has done and is doing to meet the requirements of the SMO", see, International Federation of Accountants, 5.
658 International Federation of Accountants, "Statements of Membership Obligations (SMOs) 1-7 (Revised)," 7.

organizing seminars or liaising with Ministries of Finance or other governmental bodies responsible for setting accounting standards. Efforts can also include the translation of IPSASs wherever English is not the official language.[659] Given the public sector nature of IPSASs, it is rare that professional accountancy bodies have formal-legal responsibility for their introduction. However, as Chapter 4 showed, there are countries where private accounting bodies' purview includes the setting of public sector accounting standards. In countries such as Zambia and Lesotho, IFAC member bodies directed the public sector to adopt IPSASs without modifications.[660] In the former, the professional body is now transitioning the government towards full accrual-basis IPSASs.[661] These cases, concentrated in the developing world, are examples of direct and virtually unmediated private regulation of the public sector: any new standards issued, or changes made by the IPSASB will become binding for those governments by way of the local IFAC member body which is obliged to pass on all of IFACs standards. While these cases are in the minority, they evidence both the existence of pure private regulation of the public sector and the value of the globe-spanning network of the profession as a supply chain for the IPSAB's standards.

Besides the formal extension of the IPSASB's reach, IFAC and its member organizations also represent an important resource for the Board in establishing direct network linkages with relevant actors in government accounting world-wide. For example, just ahead of the foundation of the PSC, IFAC Council members were asked to use their connections to Auditor Generals in their countries to assess the viability of IFAC entering the public sector accounting standard setting realm.[662] Then, as the PSC was getting off the ground, IFAC member bodies were enlisted to identify individuals in their countries that could form an early "constituency network" for the Committee including legislators, auditors, and financial officers in the public sector.[663] In the PSC's second meeting it was reported that, after having received responses from 23 member bodies, this constituency network had grown to 87 people,[664] and four months later to 137 individuals "nominated by 37 IFAC member bodies representing 27 countries".[665] The rapid growth of this network which included, according to the PSC, "'key players' who

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[659] International Public Sector Accounting Standards Board. Minutes of meeting. December 2009; International Federation of Accountants, "Statements of Membership Obligations (SMOs) 1-7 (Revised)."
[660] IFAC, "Lesotho," IFAC Website, accessed October 7, 2022; Zambia Institute of Chartered Accountants, "SMO Action Plan."
[661] Zambia Institute of Chartered Accountants, "SMO Action Plan."
[662] IFAC Executive Committee. Minutes of meeting. February 1986.
[663] Public Sector Committee. Minutes of meeting. April 1987.
[664] Public Sector Committee. Minutes of meeting. October 1987.
[665] Public Sector Committee. Minutes of meeting. February 1988: 3.

have the ability to influence governments",[666] shows the network power of the global profession and how leveraging that power dramatically increased the Board's reach and the speed with which it was able to build its own diffusion channels.

One example for the impacts such "key players" as well as local accounting bodies can have for the diffusion of IPSASs comes from Brazil. The accountants within the Brazilian National Treasury had long struggled with the flaws of the existing accounting system, including poor comparability and quality of accounting data coming from the federal states, which rendered it difficult to accurately determine the transfer payments made by the central government.[667] Through membership in the Brazilian Institute of Chartered Accountants, high ranking Treasury officials were aware of IPSASs and the promised benefits to themselves, including empowering them to gain greater control and influence within public financial management.[668] In the wake of the global financial crisis of 2008, high ranking Treasury accountants utilized the window of opportunity to put IPSASs onto the agenda.[669] As one Head of Department in the Treasury recalls: "the process started with a joint effort of the PAO – the professional organization – and the National Treasury".[670] As a result of this process, in 2013, Brazil formally decided to adopt IPSASs and has been working on full implementation ever since.[671]

This example is interesting for a number of reasons. First, it gives a clear illustration of how IPSASs diffuse along the supply chains that is the global network of professional organizations. High ranking Treasury officials who were also members of the local professional organization pushed Brazil all the way to adoption. Second, it demonstrates what was outlined in Chapter 4, namely that there are distributional consequences of accrual standards and IPSASs *within* the bureaucracy, empowering accounting functions within Treasuries to gain influence and control and aiding accountants as they battle economists and lawyers for dominance in public financial management. Taking a disaggregated view of governments, rather than seeing them as unitary actors, is necessary to fully grasp and explain transnational private regulation of the public sector. Not all actors within states and the government bureaucracy will be convinced of IPSASs with the same ease. Through targeted and tireless strategic networking, the IPSASB is able to reach those actors that will ultimately champion its standards. Utilizing and expanding

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666 Public Sector Committee. Minutes of meeting. October 1987: 6.
667 Interview 32.
668 Interview 32. Ricardo Rocha de Azevedo et al., "Deadlines and Software: Disentangling Local Government Accounting Reforms in Brazil," *Public Money & Management* 40, no. 7 (October 2, 2020): 509–18.
669 Interview 32. Azevedo et al.
670 Interview 32.
671 Azevedo et al., "Deadlines and Software"; Conselho Federal de Contabilidade, "SMO Action Plan," September 2022; Instituto dos Auditores Independentes do Brazil, "SMO Action Plan," September 2022.

global networks of domestic accounting organizations is one way of reaching those susceptible parts of government. As this chapter will show, building direct network linkages to relevant actors is another. Finally, and in relation to the last point, this case is also a good example for the potential distributional consequences of IPSASs: The new standards allowed the Treasury to introduce a rating system for federal states upon which transfer payments could be based, thus providing an accounting-data driven solution to an issue that had previously been one of political dealings.[672] Second, through new evaluations of tax receivables versus tax that was actually likely to be collected, the treasury *derecognized* a large sum of revenue from the balance sheet while at the same time *recognizing* additional liabilities due to the new accrual standards. This resulted in a much worse-looking balance sheet, as is common when first switching to IPSASs.[673] Showing USD $43m in net *assets* in 2014, one year later, the Treasury was instead reporting net *liabilities* of USD $471m – a fact that was unwelcome news to then-President Dilma Rousseff fighting an impeachment trial and struggling with mounting government debt.[674]

Taken together, this evidence shows that through IFAC, the IPSASB uses an extensive network of local accounting bodies as a powerful supply chain or diffusion mechanism for its standards. Because of IFAC membership obligations, individual accounting bodies ultimately have little choice but to lobby on the Board's behalf. In theoretical terms this mechanism could be described as a form of "directive orchestration" where an orchestrator – in this case the IPSASB and IFAC – draw on mandatory rules or otherwise binding conditions to direct the efforts of an intermediary in regulation. The next section will briefly elaborate on other benefits besides access to diffusion mechanisms the IPSASB receives from the network of professional bodies, mainly material resources and information.

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[672] Interview 32.
[673] As explained in Chapter 4.
[674] Standard setting official. March 29, 2019. Call; "Brazil Central Government Posts Deficit of $3.078 Billion in February," *Reuters*, March 27, 2014, sec. Business News; "Brazil Plans $6 Bln Budget Cut, Fiscal Goal in Question - Sources," *Reuters*, February 18, 2016, sec. Markets News. A Treasury official recalled: "We [were outside of] her office waiting for our Minister of Finance inside her office, and we hear[d] a lot of screaming inside". Interview 32. That this came during the impeachment process was, of course, not an orchestrated political hitjob by the Treasury, but simply coincidence. It is, however, a usefully pointed example of the potentially enormous political consequences accounting standards can have. Even when not fighting impeachment, political leaders do not usually welcome revelations that existing liabilities dwarf assets by several hundred million dollars. See, Interview 32.

I.1.2. Extracting resources

The above shows that professional organizations in IFAC extend the Board's reach and its capacity for engagement directly by lobbying on its behalf. Beyond this, member bodies also bolster the Board's and IFAC's capacity by lending staff and other material resources. One regular and substantial contribution comes from the fact that all IFAC member bodies pay dues, parts of which are then used by IFAC to help fund the IPSASB and other standard setting boards under its umbrella. Occasionally, there is also support given on a more ad hoc basis, for example, when a US member body volunteered its communications division's services to develop a public relations package together with IFAC, saving the cost of having to hire an outside public relations firm.[675] Besides the member dues the IPSASB shares in through IFAC, member bodies are useful in terms of the immaterial resources they provide.

As said above, member bodies plan and conduct outreach at their respective local levels in order to encourage IPSASs adoption.[676] In addition to this, they also provide important informational resources. Member bodies have extensive local expertise and network that would essentially be impossible to build for any organization at the international level, public or private – and particularly one with consistent funding and staffing shortages such as the IPSASB.[677] Domestic accountancy organizations are therefore important conduits for information to the Board and for IFAC. Due to their embeddedness in local accounting debates and at times policy making, IFAC member organizations have an ear to the ground and are able to supply standard setters with information on status of adoption, implementation, as well as roadblocks and potential demand (e.g. JG IV). They can also establish connections to important individuals on the ground who are potential targets for the IPSASB's lobbying efforts.[678] The Board therefore sees outreach generally as a "two-way activity".[679]

I.2. Building the profession

From the above it becomes clear that the global professional network of domestic accountancy organizations provides very valuable leverage to the Board. However, despite covering nearly every country, especially in the early days of the Board this network had gaps particularly in the relevant public sector domain. As shown earlier in this chapter, government accounting is

675 IFAC Planning Committee. Minutes of meeting. February 1988.
676 International Public Sector Accounting Standards Board. Minutes of meeting. December 2009.
677 As outlined in Chapter 3, issues of both staffing and funding have been consistent issues for the Board.
678 See, e.g., Public Sector Committee. Minutes of meeting. April 1987.
679 IPSASB, "Delivering for the Future: 2017-2018 Biennial Review.," 2019.

far less well developed than accounting for business. Many IFAC member bodies were therefore found not to have engagement with their respective public sectors.[680] This is because member bodies often do not have any formal responsibility for public accounting or accounting functions are sole purview of the Ministry of Finance or similar entity.[681] As discussed earlier, accounting in government is also often delegated to economists, lawyers, or generic administrators rather than professional accountants.[682]

The strategies to overcome these gaps in the network to this are two-fold, first, the IPSASB and IFAC undertake efforts to strengthen and expand the global accounting profession. This is done in two ways. First, by building out the organizational infrastructure of the profession through assisting with the foundation and expansion of relevant domestic and regional professional bodies. Second, by working to change the paradigm of the accounting profession towards IPSASs acceptance and usage by engaging with providers of education and training as well as researchers. The second reaction is for the Board to establish its own network of constituents and stakeholders and engage in its own, direct outreach and lobbying activities world-wide. These strategies will be discussed in turn in this section and the following one.

I.2.1. Building up the organizational infrastructure

Part of the effort to deepen the profession's network ties to the public sector is to encourage existing IFAC member organizations to increase their engagement of the public sector in their respective countries. Already at the founding stages of the Public Sector Committee, its chairman urged member organizations and regional accountancy bodies "to get involved in the public sector".[683] Among other things, the IFAC Council recommended that member bodies be encouraged to set up Public Sector Committees of their own in order to engage their countries' public sectors, including inviting government officials to serve on the respective committees.[684] In an attempt to further improve the organizational infrastructure of the profession, one of IFAC's early presidents also recommended to the Council to encourage the setup of regional accounting organization.[685] Regional organizations such as the Federation of European

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680 International Public Sector Accounting Standards Board. Minutes of meeting. July 2005. IFAC Council. Minutes of meeting. May 1990.
681 IFAC Council. Minutes of meeting. May 1990.
682 Jones and Pendlebury, *Public Sector Accounting*.
683 IFAC Council. Minutes of meeting. November 1988: 14.
684 IFAC Council. Minutes of meeting. May 1993.
685 See, e.g., IFAC Council. Minutes of meeting. October 1987.

Accountants (FEE) can "help mobilizing their members […] and supporting the work of IFAC to achieve its objective of compliance".[686]

As argued in the previous chapter, developing countries represent lower hanging fruit for the IPSASB. This is due to their often less established, or absent, domestic standards and associated institutions, thus eliminating issues of path dependency and lowering barriers to diffusion. Developing countries' generally lower capacity also increases their willingness to accept outside expertise – especially if it comes free. This leads to the diffusion initiatives leveraging IGO projects as previously described. However, it also presents an opportunity to develop and train the local profession in a way that is favorable to IPSASB's and IFAC's objectives. From the beginning, there was an awareness that developing nations are an important constituency. The PSC instituted the "Developing Nations Sub-Committee" to deal with related issues. With the explicit goal of transitioning countries to accrual accounting as soon as possible, the Committee also decided on developing a transitional cash basis standard as well as additional guidance on the transition as discussed in the previous chapter.[687] As described in the Chapter 3, the cash basis standard is intended for lower-capacity countries to help them transition into full accrual IPSASs.[688]

In a similar vein, the IPSASB (then still the PSC) got itself involved in the IFAC-run International Forum for Accountancy Development (IFAD). As already elaborated on in Chapter 5, the Forum was started in 1998 at the proposal and under the leadership of IFAC and included professional accounting bodies, Big 6 accounting firms, as well as multilateral development banks and other IGOs, meeting regularly until 2002.[689] Its purpose was to "build accounting capacity in developing and transitional economies".[690] Besides being an interesting case of the Board orchestrating IGOs and other international actors, this initiative speaks to the efforts to expand the organizational infrastructure of the accounting profession. Ultimately, IFAD's focus remained mostly on private sector accounting and building the profession generally in developing countries with the role of the public sector being discussed only at the margins.[691] However, as argued here, initiatives like IFAD are crucial steps in expanding the

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686 IFAC Executive Committee. Minutes of meeting. May 2000. The FEE cooperated with the EC on ISA adoption in Europe, see: IFAC. Letter to Member Bodies. July 1997.
687 Public Sector Committee. Minutes of meeting. January 2000.
688 IPSASB, *Handbook of International Public Sector Accounting Pronouncements*, 2022.
689 "International Forum on Accountancy Development," UIA Yearbook Profile, Union of International Associations Website, accessed October 7, 2022.
690 IFAC, "International Forum on Accountancy Development: A Proposal to Strengthen Accounting Capacity in Developing and Transitional Economies from The International Federation of Accountants," October 8, 1999, 2.
691 Public Sector Committee. Minutes of meeting. November 2000.

profession as a network that can serve as a supply chain for IFAC standards including IPSASs and expand the global reach and capacity of these private regulators.

Profession-building initiatives like IFAD continue to this day with the most recent one being the Memorandum of Understanding to Strengthen Accountancy and Improve Collaboration (MOSAIC) signed in 2011 between the donor community, including multilateral and bilateral development agencies, and IFAC. At its core, MOSAIC encourages IFAC to continue its Member Compliance Program, discussed earlier in this chapter, to guide the diffusion and implementation of its standards through strategic Action Plans, and to support the further development of the accounting profession – while donor agencies promise to "mobilize additional resources to support the implementation of PAO [professional accountancy organizations] strategic Action Plans and […] to support key activities and programs developed by IFAC, aimed at achieving its strategic goals in the area of PAO development, as it impacts on emerging and developing countries"[692]

Further to these cooperative initiatives, IFAC also maintains its own Professional Accountancy Organization Development and Advisory Group, established in 2005, including members from developing and developed nations nominated and supported by IFAC member organizations. The Group is a further channel for IFAC to engage with IGOs and donor agencies and guide the expansion of the profession.[693]

In sum, these efforts demonstrate the attempts by the IPSASB and IFAC more generally to further build out the organizational infrastructure of the accounting profession to lay the groundwork for the diffusion of IPSASs and other IFAC standards. It does so in part by orchestrating and cooperating with international actors as described in detail in the previous chapter, and in part through its independent initiatives. The following section will show how through the engagement of education and training providers as well as researchers, the IPSASB attempts to create a culture receptive to its standards and to further their diffusion.

[692] World Bank, "MOSAIC - Memorandum Of Understanding to Strengthen Accountancy and Improve Collaboration," November 30, 2011, 6.
[693] "Professional Accountancy Organization Development & Advisory Group," IFAC Website, July 27, 2018.

I.2.2. Orchestrating education and training

In its attempts to leverage and expand the accounting profession, one key pillar of the Board's strategy has become the orchestration of academic research and teaching. By orchestrating education providers inside and outside of academia and enlisting them in the effort to change the paradigm of public sector accounting, the Board lays the groundwork for acceptance and diffusion of its standards. Educational institutions targeted include universities as well as professional accounting bodies who traditionally play an important role in initial and continuous training of practising accountants. Further, the Board aims to steer and influence the academic debate in directions beneficial to its mission. Guiding academic research through conferences, calls for papers, grant-giving, as well as directly shaping the debate via its academic members, the Board can benefit in two ways. First, it extends its capacity by receiving inflows of external expertise and, second, it raises the profile and potentially the reputation of its standards. The following gives a brief overview of these efforts.

An important element of building the profession to make it a more effective diffusion channel for IPSASs and other IFAC standards is through accounting education. Through trainings and university education, accountants and those aspiring to be, are made aware of the standards.[694] Through education and training, professions socialize new members and may change the paradigms of existing professionals.[695] Over time, this can lead to paradigm shifts within the profession that facilitate the global acceptance of IPSASs. One IPSASB chairman argued that this is exactly the cultural change the Board is targeting by encouraging "IPSAS being taught at universities and people then moving on and expecting to see IPSASs where they go".[696] Education is also seen as an opportunity to build the profession in developing nations,[697] which, as argued above, is an important step in making this important constituency more fertile for adoption and implementation. The Board sees convincing academics to teach and do research on IPSAS as critical to its strategy. As an IPSASB staff member explains in an article placed in a leading accounting journal: "The IPSASB needs universities to prepare accountants and administrators for careers using IPSAS/accruals financial information".[698]

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[694] IFAC Council. Minutes of meeting. October 1987.
[695] DiMaggio and Powell, "The Iron Cage Revisited."
[696] Interview 12.
[697] IFAC. Letter to Member Bodies. June 1995.
[698] Gwenda Jensen, "The IPSASB's Recent Strategies: Opportunities for Academics and Standard-Setters," *Journal of Public Budgeting, Accounting & Financial Management* 32, no. 3 (July 2, 2020): 3.

While there is a naturally long time horizon attached to the strategy of (re-)educating the profession, considering it might take decades for these changes to achieve their full impact,[699] IPSAS is already taught at universities and professional trainings across the world. For example, the University of London, through SOAS, offers an IPSAS module as part of a range of MSc programmes,[700] as do others.[701] Other universities also offer short courses,[702] certificates,[703] or online courses,[704] often open to a wider audience from students to professionals. Furthermore, there is a plethora of online and offline training programmes offered outside the university setting in particular through professional accounting bodies who are responsible both for training and continuing education of the accounting profession,[705] as well as other education providers.[706] Beyond the growing number of IPSAS-specific courses, the Board's members and technical advisors are themselves active in education. For example, the current technical director of the IPSASB serves on the advisory board to the Rutgers Business School's Masters in Governmental Accounting. Neema Kiure-Mssusa, current IPSASB member and Partner at EY, is part of the African Professionalization Initiative which seeks to "grow the capacity of accountancy professionals in the African public sector"[707] and is supported in part through development assistance.[708] Other members, such as American Scott Showalter are themselves professors – and in his case director of the Master of Accounting program at his university.[709] This is both testament to the Board's engagement strategies and the growing influence of IPSASs simply through their focality and wider diffusion.

Adding academic members to the IPSASB itself has historically been one of the key strategies for engaging and enlisting academia for the Board's work. Besides their contributions to shaping education, IPSASB academics will also be important voices in the scholarly debate, often advocating quite forcefully for IPSAS-based accrual reforms. One example of this is

[699] Interview 12.
[700] "Financial Reporting (IPSAS)," University of London, accessed October 7, 2022.
[701] "Course Outline: 3rd Semester (Pathway: Applied Accounting and Public Sector Auditing) - University of Macedonia," University of Macedonia, accessed October 7, 2022.
[702] "GRAP/IPSAS Financial Reporting," Enterprises University of Pretoria., accessed October 7, 2022.
[703] "Certificate In International Public Sector Accounting Standards," Skyline University College, accessed October 7, 2022.
[704] "European Public Sector Accounting," Universität Rostock, accessed October 7, 2022.
[705] As an example, the UK's Chartered Institute of Public Finance and Accountancy, an organization many IPSASB members including the current chair are part of, offers a certificate course for finance professionals such as auditors and consultants, see, "CIPFA Certificate in International Public Sector Accounting Standards (IPSAS)," Keystone Online Studies, accessed October 7, 2022.
[706] For example, "Spotlight on Our IASeminars' IPSAS Faculty," IASeminars, accessed October 7, 2022.
[707] "Partnering to Professionalise Accounting and Auditing in the Public Sector," African Professionalisation Initiative, accessed October 7, 2022.
[708] Such as the German Agency for International Cooperation (GIZ) and UK Aid. See, "Partnering to Professionalise Accounting and Auditing in the Public Sector."
[709] "Scott Showalter," Poole College of Management, accessed October 7, 2022.

former IPSASB Chairman Andreas Bergmann. Not only is he a forceful presence in top accounting journals, publishing papers largely lauding IPSASs,[710] but through his university he also engages in consulting projects facilitating the use and diffusion of IPSASs. For example, one of his projects entailed "supporting the World Bank with an IPSAS Gap assessment and subsequent implementation of IPSASs in the Kyrgyz Republic".[711] Similarly, in April 2021, the ZHAW School of Management and Law, for which Bergmann is Director of the Public Sector Department, started a project aimed at "ensuring compatibility"[712] of the United Nation Conference on Trade and Development's (UNCTAD) Debt Management and Financial Analysis System's software with IPSASs.

Recently, the Board has further institutionalized its engagement of academia for education and research. In 2019, the IPSASB established its so-called Academic Advisory Group. Chaired by former IPSASB chair Andreas Bergmann, its members are former and current Board members whose primary occupation is in academia, as well as members from the Comparative International Governmental Accounting Research (CIGAR) Network and the International Research Society for Public Management (IRSPM). The Group's role is to "facilitate more structured relationships between the board and the academic community, and to maximize the contribution the community can make to the development of high quality IPSAS".[713] The Board has since more formally attempted to orchestrate academic research in accounting: In 2019, 2020, as well as 2022, the Board hosted accounting research forums in partnership with the CIGAR Network and the University of Molise.[714] Since 2020 it has also issued multiple calls for papers encouraging research on issues related to the Board's work plan, offering grants for the best papers submitted.[715] An article placed in a top accounting journal by an IPSASB staff member, cited above, is further evidence of that strategy. The five-pager provides a brief overview of the IPSASB's interest in academic engagement, mentions its grants and results in

[710] See, Andreas Bergmann, "The Influence of the Nature of Government Accounting and Reporting in Decision-Making: Evidence from Switzerland," *Public Money & Management* 32, no. 1 (January 2012): 15–20; Andreas Bergmann et al., "Consolidation in the Public Sector: Methods and Approaches in Organisation for Economic Co-Operation and Development Countries," *International Review of Administrative Sciences* 82, no. 4 (December 2016): 763–83; Andreas Bergmann, Sandro Fuchs, and Christoph Schuler, "A Theoretical Basis for Public Sector Accrual Accounting Research: Current State and Perspectives," *Public Money & Management* 39, no. 8 (November 17, 2019): 560–70.
[711] "IPSAS Implementation Kirgisien," Zürcher Hochschule für Angewandte Wissenschaften, accessed October 7, 2022.
[712] "ZHAW-DMFAS Workshop on ISPAS," Unctad Website, accessed October 7, 2022.
[713] "Academic Advisory Group," IPSASB Website, accessed October 7, 2022.
[714] Jensen, "The IPSASB's Recent Strategies"; IPSASB, "Delivering Through Challenging Times: 2019-2020 Biennial Review"; "Academic Advisory Group."
[715] In 2020 it was offering four grants and in 2022 six grants of $1500. See, Jensen, "The IPSASB's Recent Strategies"; "Academic Advisory Group."

what is essentially a call for more research on IPSAS concluding "[t]he author looks forward with anticipation to learning more from academics on their perspectives and believing that we can work constructively together through research and standard setting in the public interest".[716]

Taken together it is clear that the IPSASB's strategy for profession-building has education as one of its key pillars. As can be seen from the evidence above, the IPSASB is engaged in orchestrating both accounting education and research. Convincing educators to teach IPSASs and incentivising researchers to do research on the standards, the Board gains capacity and drives a paradigm shift in the profession, thus establishing a supply chain for its standards. Further, it gains capacity through enlisting external expertise in the creation of its standards.

II. Building a Constituency and Targeting States Directly

II.1. Board diplomacy

Leveraging professional accounting organizations through the IFAC network is one of the Board's most powerful avenues for diffusing its standards. However, the Board and its members also works tirelessly to create further issue-specific networks and to lobby their regulatory targets directly. The IPSASB pursues this strategy in three main ways. First, it maintains connections to public sectors world-wide to create its "constituency" and sends out its Board members to individually lobby on the IPSASB's behalf (II.1.1). Second, it chooses its meeting locations strategically to create networking opportunities with its regulatory targets, that is public sectors around the world (II.1.2). Third, it organizes dedicated lobbying events such as so-called Regional Roundtables to which public sector representatives are invited (II.1.3).

II.1.1. Networks and board members

Already in the PSC's second meeting, building domestic networks globally, that is "building a constituency",[717] was identified as an important step to be taken. The committee resolved to actively identify key individuals across geographical regions whose "input and support is vital to the Committee"[718] in order to construct a network of individuals from these regions who would be in communication with the committee. The first results of these network building efforts were reported at the following meeting. Within a few months, the network had been grown to 87 people named by IFAC member bodies – demonstrating again the value

[716] Jensen, "The IPSASB's Recent Strategies," 4.
[717] Public Sector Committee. Minutes of meeting. April 1987: 3.
[718] Public Sector Committee. Minutes of meeting. April 1987: 3.

professional bodies can provide. The strategic intent of this constituency building is clearly visible already at this early stage with the PSC explicitly focusing efforts on “key players who have the ability to influence governments”.[719] This shows that the PSC/IPSASB views the network linkages it creates not just as sounding boards and sources of information[720] but as active supply chains for its standards and a way to reach its regulatory targets.

In order to establish these individual network linkages and add to the already existing professional network described above, Board members as well as staff are expected and encouraged to engage in direct outreach. Outreach by Board members is, again, explicitly seen as an effort to “encourage IPSAS adoption”.[721] Board members are especially suited to this outreach because they tend to already have significant public sector connections or be in senior public sector roles themselves, as shown in the Chapter 3. This is also why representation on the Board matters more for the IPSASB itself than the “represented nations”. Efforts to have Board representation of all world regions and increase especially the share of members from emerging and developing economies are not just attempts to balance out the perceived Anglo-Saxon bias but also to gain potentially forceful lobbyists in those regions that are particularly susceptible to the IPSASB’s sales pitch because of their lower capacity and less developed accounting systems and professions.

Outreach by staff and Board members has happened since its inception as the PSC, albeit not usually reported systematically until around the 2010s. However, through frequent mention in the minutes, a picture of consistent and effective Board member outreach still emerges. For example, members are said to have made significant inroads in Latin America, the Caribbean, and the Pacific islands.[722] Board members are also involved in assisting implementation efforts, for example by contributing to trainings in countries across the world such as in Lebanon, the Bahamas, and the Cayman Islands.[723] As a specific example, the then-Board-member from Brazil, himself Head of Department for Accounting Standards in the Treasury engaged his

[719] Public Sector Committee. Minutes of meeting. April 1987: 6.
[720] For example, the board uses its network to survey ministries of finance on financial reporting, see Public Sector Committee. Minutes of meeting. April 1990. Public Sector Committee. Minutes of meeting. September 1990.
[721] International Public Sector Accounting Standards Board. Minutes of meeting. April 2010: 5.
[722] International Public Sector Accounting Standards Board. Minutes of meeting. October 2009; International Public Sector Accounting Standards Board. Minutes of meeting. April 2010; International Public Sector Accounting Standards Board. Minutes of meeting. December 2011; International Public Sector Accounting Standards Board. Minutes of meeting. June 2017.
[723] IPSASB, “Sustaining the Momentum: 2015-2016 Biennial Review.”

government and other stakeholders on accrual implementation and had previously been part of those elements in the Treasury who initially championed IPSAS adoption in Brazil.[724]

The Brazilian case and others like it demonstrate both the importance of direct network linkages between the Board and important actors in government and the public sector, and the effectiveness of the accounting professional network as diffusion channels for standards and ideas. As in this chapter explains, it is often the accounting functions within treasury departments where the push for IPSASs reforms first takes seed because the accountants on their staff are tied into the professional networks through which ideas for public financial management reforms and new standards flow. Direct outreach and networking by the Board complement the PAO supply chains in important ways as they can– pick up on initial interest in relevant government departments and then empower them through expertise and other support to push for reforms. As the above shows, Board members will often provide valuable consulting services and training to shepherd adoption and implementation processes.

II.1.2. Strategic selection of Board meeting locations

In order to create occasions for structured outreach and lobbying, the Board and its members are consistently "travelling the world".[725] This is done in two main ways. First, Board meeting locations are strategically chosen in ways that cover important regions and countries. On the periphery of those meetings, events will be held to engage potential regulatory targets and others able to facilitate, and additional local representatives of government and other relevant actors may be joining Board meetings. Second, the Board organizes specific lobbying events and conferences. So-called Regional Roundtables are one event format in particular that has managed to draw large crowds of relevant public sector representatives.

There is clear evidence that from early on, the PSC saw it as strategically important to set the location of Board meetings with a view towards creating networking opportunities. For example, when IFAC decided that for cost reasons half of all meetings should take place at the IFAC headquarters in New York, the Board protested vehemently, opposing the move "given the significant promotional and communication activities that were undertaken in conjunction with PSC meetings".[726] Individual Board members noted that these outreach activities around Board meetings "in their countries or in their region had been most important in raising the

[724] International Public Sector Accounting Standards Board. Minutes of meeting. June 2017. Interview 32.
[725] Interview 3.
[726] Public Sector Committee. Minutes of meeting. April 2003: 26.

awareness of […] the IPSASs in the public sector".[727] The issue of reducing Board travel seems to have cropped up occasionally whenever IFAC's financial position was weak[728] but in general, the Board managed to resist at least the most drastic proposals and continue holding the majority of its meetings outside of New York.[729] As said, Board meetings outside of New York or Toronto (where the IPSASB is headquartered) in general have further outreach events attached to them. By way of example, often the Board would arrive a day early to meet with relevant local actors[730] or have dinners and other joint meetings with accounting bodies or public sector organizations integrated into the schedule.[731]

II.1.3. Regional roundtables: pitching to governments

One further, more recent mode of engagement has been so-called Regional Roundtables as well as Public Sector Forums where the Board sets up what essentially are lobbying conferences and invites public sector representatives from the respective world region. These discussions are used to both assess demand and garner feedback, and to spread the word on IPSAS. In the current IPSAS Strategy and Work Plan, Regional Roundtable events are described as "a key aspect of the IPSASB's outreach activities [and] a continued effort to build […] strategic regional relationships".[732] In 2016, the Board held the first Public Sector Forum in the US involving 70 participants "from 22 organizations with standard-setting responsibilities in more than 30 countries".[733] Further such forums with similar attendance numbers were held 2017 in Switzerland[734] and 2019 in Canada.[735] In 2018, the Board hosted a total of four regional roundtables in Brussels, Brasilia, Addis Ababa, and Manila with a total of 380 individuals in attendance representing 310 organizations in dozens of countries.[736] Other years saw similar activity: in 2019, Roundtables were again held in Brasilia, Manila, and Addis Ababa gathering a total of 354 attendants from 209 organizations.[737]

[727] Public Sector Committee. Minutes of meeting. July 2004: 30.
[728] For example, in 2011, IFAC was operating a significant budget deficit and sought to shift all IPSASB meetings to New York. IFAC noted that the savings of such a move would be around $500,000 or "almost 42% of the deficit". International Public Sector Accounting Standards Board. Minutes of meeting. January 2011: 43.
[729] Public Sector Committee. Minutes of meeting. July 2003. Public Sector Committee. Minutes of meeting. July 2004.
[730] For example, International Public Sector Accounting Standards Board. Minutes of meeting. March 2015.
[731] For example, during a Board meeting that was observed for this study. See IPSASB, "IPSASB Meeting Agenda" (Luxembourg City, Luxembourg, 2017).
[732] IPSASB, "Strategy and Work Plan 2019-2023: Delivering Standards. Inspiring Implementation.," 17.
[733] IPSASB, "Sustaining the Momentum: 2015-2016 Biennial Review," 16.
[734] IPSASB, "Delivering for the Future: 2017-2018 Biennial Review."
[735] IPSASB, "Delivering Through Challenging Times: 2019-2020 Biennial Review."
[736] IPSASB, "Delivering for the Future: 2017-2018 Biennial Review."
[737] IPSASB, "Delivering Through Challenging Times: 2019-2020 Biennial Review."

Further opportunities to engage potential regulatory targets and those who might facilitate the development, diffusion, and implementation of IPSASs comes through involving relevant individuals in ways other than appointing them Board members. For example, the initial Consultative Group and later the Consultative Advisory Group provide an opportunity to involved those who have an interest in the Board's work but "may not be in a position to provide input to technical or other items"[738] as well as important stakeholders. The same is true for inviting interesting and relevant parties to be observers on the Board.[739] These individuals can also often act as multipliers for the Board's network building. For example, the President of the Association of the Accountants-General of Argentina, included in the PSC's initial Consultative Group enabled "tapping into the already existing network of the Association of Argentina Accountants General with emails addresses and other contact details".[740]

Taking together all outreach by individual Board members as well as the types of events discussed above, as per the most recent Biennial Review referring to the period of 2019 to 2020, even though impeded by the Coronavirus pandemic, the Board conducted a total of 352 outreach activities in 33 countries across the world – with most activities conducted in Europe, followed by Africa and the Middle East, and Latin America.[741] As these figures show, the Board's individual networking activities are substantial undertakings drawing significant crowds of a range of relevant actors who have the capability to ultimately influence government decision-making on accounting. This type of lobbying is a deliberate strategic effort by a private standard setter to establish direct connections with potential regulatory targets and to foster adoption and implementation of its standards. The entirety of the Board's efforts to create a globe spanning constituency among its regulatory targets is an effective complement to leveraging and expanding the accounting profession described above. This enables the Board to directly influence the debates had within potential adopting countries, empower those actors within targeted states who are most receptive to the IPSAS sales pitch – such as Treasury accountants – to push for IPSAS-based reforms of their respective systems. It also allows the

[738] Public Sector Committee. Minutes of meeting. April 2003: 27.
[739] See, e.g., International Public Sector Accounting Standards Board. Minutes of meeting. October 2008.
[740] Public Sector Committee. Minutes of meeting. March 2004: 33.
[741]The precise breakdown by region was: Europe (94 activities, 11 countries), Africa and the Middle East (62 activities, 7 countries), America and the Caribbean (57 activities, 6 countries), Asia (51 activities, 3 countries), Australia and Oceania (50 activities, 2 countries), Latin and North America (38 activities, 2 countries). See IPSASB, "Delivering Through Challenging Times: 2019-2020 Biennial Review," 14.. In the previous two-year period, from 2017-18, the Board conducted 438 such outreach activities in 34 countries. Outreach efforts were conducted across the world in Europe (113 activities, 12 countries), Asia (89 activities, 5 countries), Australia and Oceania (68 activities, 2 countries), Latin America and the Caribbean (88 activities, 7 countries), Africa and the Middle East (41 activities, 5 countries), and North America (39 activities, 3 countries). See IPSASB, "Delivering for the Future: 2017-2018 Biennial Review.," 12.

Board to get directly involved in adoption and implementation efforts not least through individual Board members lending consulting expertise and holding trainings. The following section will look at the IPSASB's engagement of specific groups of organizations that may further its cause: National Standard Setters, big accounting firms, and credit rating agencies (CRAs).

II.2. Orchestration of other actors

II.2.1. National Standard Setters (NSSs)

As explained in previous chapters, the process for setting accounting standards differs in each country. In countries with stronger cameralist tradition where accounting is more of a domain of law, but also in others, accounting is commonly under the umbrella of the ministry of finance or similar government department – in some cases staffed by economists and generic administrators rather than accountants. However, in some countries, especially those in a more Anglo-Saxon tradition, accounting standards are set by independent (governmental) accounting standards boards. South Africa's Accounting Standards Board (ASB)[742] and the New Zealand Accounting Standards Board (NZASB) under the umbrella of the External Reporting Board (XRB)[743] are two such examples. These organizations are what is often referred to as national standard setters (NSSs). NSSs are an obvious target for the Board, especially considering they tend to be fully staffed by accountants and somewhat more independent from government.

For the Board, these entities can be extremely useful in extending its capacity. Similar to the IPSASB's steering of academic research, the Board has throughout its history often drawn on NSSs to facilitate the development of specific IPSASs where more expertise was needed. For example, the Canadian Public Sector Accounting Board (PSAB) provided significant staff assistance in the updating of IPSASs on financial instruments.[744] Similarly, the New Zealand External Reporting Board assisted in the development of the standard on revenues,[745] and the US's Governmental Accounting Standards Board (GASB) helped develop a project on non-exchange expenses[746] as well as on the impairment of assets.[747] Being an organization with relatively limited financial and staff resources itself, the Board recognizes NSSs as a significant

[742] "Overview – ASB."
[743] "PBE Standards Based on IPSASB Pronouncements."
[744] International Public Sector Accounting Standards Board. Minutes of meeting. March 2017.
[745] International Public Sector Accounting Standards Board. Minutes of meeting. March 2015.
[746] International Public Sector Accounting Standards Board. Minutes of meeting. March 2015.
[747] Public Sector Committee. Minutes of meeting. November 2003.

resource that can extend its capacity. For example, commenting on the initiation of new projects the IPSASB Technical Director commented "that the work plan was challenging, but felt that it was realistic and achievable with the help of partners such as the Governmental Accounting Standards Board and the New Zealand Accounting Standards Board".[748]

Since these NSSs hold the legal mandate for setting accounting standards they are an important constituency for the Board – representing the regulatory targets of the Board's activity. Involving them in the standard setting process therefore has benefits beyond increased capacity. As one former IPSASB Chairman argued, if NSSs "see in the work program and output that they [are] being listened to"[749] they will be more inclined to consider adopting the standards. He argued this contributed to New Zealand's adoption decision.[750] New Zealand of course is a special case as has been said in previous chapters because IPSASs are a product of Ian Ball and colleagues taking their accrual reforms international, in part to secure them domestically.[751] Ultimately, just like with Ministries of Finance or Treasury Departments, the IPSASB has itself no means to coerce these organizations and is therefore more reliant on persuasion and developing a mutually beneficial relationship.

Therefore, of course, NSSs stand to also gain from engagement with the IPSASB. Where NSSs are strong, have high capacity, and are aligned with the IPSASB's general objectives – as is the case for the XRB in New Zealand – they can hope for increased influence on the Board's standards output as evidenced by the above-described involvement in the writing of standards. This naturally favors those NSSs and countries who have a strong accrual accounting tradition and the extensive expertise that comes with maintaining such a system. On the whole, this will favor accrual-leaning Anglo-Saxon countries and further contribute to the Anglo-Saxon bias of the standards. However, while NSSs that are institutionally weak and have low capacity and expertise may need to take what they are given, they may still gain from IPSASs. A ready-made, high-quality set of standards that comes at zero cost can empower weaker NSSs to increase their institutional standing within the bureaucracy, giving them a cutting-edge product they could have never themselves developed. Often, as shown above, the Board will engage with lower capacity organizations and countries to train and aide implementation and adoption. The losers in this are mainly those states and parts of governments that are opposed to IPSASs and accrual standards but are forced to adopt what they are given through one channel or another

[748] International Public Sector Accounting Standards Board. Minutes of meeting. March 2016: 3.
[749] Interview 3.
[750] Interview 3.
[751] Interview 12. Robb and Newberry, "Globalization."

– for example because they are coerced by an IGO or have no choice but to draw on external expertise if they desire to build a functioning accounting system.

II.2.2. Engaging Big Four Accounting Firms

Due to their global presence and role in education and training, big accounting firms[752] are an obligatory passage point for many accountants in their careers. Naturally, IFAC and the IPSASB both have close relations with these firms. As outlined in Chapter 3, a significant number of Board members, staff, and Technical Advisors are in senior positions at such firms and even those on the Board now in public sector roles or academia usually have, at some point in their careers, intersected with these big accounting firms. Within IFAC, the world's internationally operating accounting firms[753] are represented through the Forum of Firms (FoF, or simply "the Forum"), governed by IFAC's Transnational Auditors Committee (TAC).[754] They play a significant role in funding IFAC through the Forum with much of that funding going to the International Auditing and Assurance Standards Board (IAASB) as the board most relevant to their core business of auditing.[755] Because these firms are global networks and concentrate enormous amounts of expertise and material resources, they are important drivers for IPSAS diffusion. The Board gains a great deal from having these organizations on its side. At the same time, while they may have taken some convincing at first, big accounting firms stand to generate business from IPSASs, creating a win-win cooperation.

There is evidence that, at first, big accounting firms were not overly interested in or involved with the IPSASB. They had to be courted and enlisted – however straightforward their enlistment may have been in the end. For example, in 2009, efforts were made "to help the North American partners of the six largest accounting firms to [*sic*] understand IPSASB's importance to their business models".[756] The IPSASB Chair,[757] as well as others like the Board's Technical Director met with the Big 6 multiple times over the span of years in order to "promote awareness of IPSASs".[758] Within IFAC, the Board also decided to make the case for

[752] As previously mentioned in this thesis, the dominant global firms are known as the Big 4, having consolidated down from the previous Big 6. The Big 4 are: Deloitte Touche Tohmatsu, Ernst & Young (EY), KPMG, and PricewaterhouseCoopers (PwC).
[753] Technically, many of the member organizations are themselves networks firms, that is, the international entities that gather the national incarnations of firms such as KPMG and EY that tend to be independent entities.
[754] The membership of the Forum goes beyond the Big 4 and includes a total of 33 firms. See "Transnational Auditors Committee & Forum of Firms," IFAC Website, accessed October 7, 2022; Forum of Firms, "Forum of Firms: Constitution," June 4, 2021.
[755] International Public Sector Accounting Standards Board. Minutes of meeting. September 2009.
[756] International Public Sector Accounting Standards Board. Minutes of meeting. September 2009: 24.
[757] International Public Sector Accounting Standards Board. Minutes of meeting. September 2009.
[758] International Public Sector Accounting Standards Board. Minutes of meeting. June 2011.

receiving a greater share of the funding provided by those accounting firms given "the increased business revenues to these firms from IPSASB leadership in accrual accounting and public sector reporting".[759]

By now, big accounting firms are very much aware of public sector accrual reforms as a business opportunity. They are heavily involved on the IPSASB, not just through lending some of their senior members' time to act as Board members, but also in the form of other support such as secondments of staff[760] and providing input on drafts.[761] At the same time, while they will benefit from standards that are as close to the IFRSs familiar to them as possible, and while their expertise does enter the standards,[762] there is little evidence to suggest that big firms are trying to systematically alter or control the IPSASB's output. This makes sense because what matters to these organizations is not necessarily the exact content of the standards, but that internationally accepted standards exist and that countries around the world as well as IGOs become convinced of need to harmonize and reform their systems. Increased demand for IPSASs generates business in the form of conducting gap analyses, feasibility studies, consulting and other forms of advisory, implementation assistance, staff training, and updating computer systems. As one interlocutor explained, the more professionalized public accounting becomes, and the more there is demand for a harmonized accrual system, the more public sectors will be in demand for consulting. Demand for harmonization in particular, and the narrative that IPSASs are a one-size-fits-all solution, enables firms to offer a readymade solution at low cost to them and more easily transfer their consulting models.[763]

Interlocutors on and off the Board concluded that Big 4 accounting firms were involved mainly in order to generate business.[764] One IGO official put it in stark terms arguing that "IPSASs are a product sold to states by IFAC. [The goal] is to generate business for the Big 4 – they run IFAC and they implement IPSASs".[765] Others spoke to the symbiotic relationship between the Board and accounting firms, highlighting in particular their importance for assisting countries through the implementation process, which is something the IPSASB lacks the capacity to do itself,[766] with one former Board member arguing that it is "impossible not to involve the Big 4

[759] International Public Sector Accounting Standards Board. Minutes of meeting. September 2009: 25.
[760] International Public Sector Accounting Standards Board. Minutes of meeting. March 2013.
[761] Interview 5.
[762] Interview 5.
[763] Interview 6.
[764] Interview 6. Interview 14. Interview 9. Interview 5. Interview 12. Interview 25.
[765] Interview 25.
[766] Interview 5. Interview 12. Interview 9.

because they are going to implement [the standards]".[767] However, at the same time, the Board is cautious to openly and formally rely on Big 4 firms as advocates because this would make governments suspicious. One IPSASB Chairman argued that "they are a more extreme version of what people would say about IFAC: it is by accountants for accountants".[768] In practice, of course, even governments of developed countries and high-capacity organizations such as the EU, will not be able to implement accounting reforms without Big 4 assistance – and, when consulted by governments or other organizations, big accounting firms tend to push IPSASs even if they are not engaged by the Board as advocates in any official way.

One example is the European Commission's (EC) project to develop accrual IPSAS-based European Public Sector Accounting Standards (EPSASs).[769] EU member states would not be willing to formally transfer powers to a private actor such as the IPSAS and therefore chose to endorse and modify IPSASs resulting in EPSASs. In this process, the EC has drawn heavily on big accounting firms. They have conducted initial feasibility studies,[770] and were commissioned to produce dozens of issue papers relating to public sector accounting.[771] The German Supreme Audit Institution is one actor that has publicly criticized the influence firms like EY and PwC may have through these issue papers. Additionally, in EPSAS working group meetings, representatives of accounting firms have been forcefully "advocating the strongest possible alignment with the IPSAS framework".[772] This shows that Big Four accounting firms are not just involved in standards production and post-adoption processes like implementation, but actively work to further diffuse IPSASs. One interlocutor gave anecdotal evidence that the real push for accrual accounting in Italy came from big firms lobbying – in the end, it was those firms that took most of the business.[773] These firms – like most enlisted by the Board – act as lobbyists and supply channels for IPSASs not because they are coerced to do so or because they are being steered in some way, but because their interests align. As shown in this and other cases, however, this alignment is not a mechanistic occurrence, but required convincing and strategic action by the Board.

[767] Interview 9.
[768] Interview 12.
[769] Interview 21.
[770] PwC, "Collection of Information Related to the Potential Impact, Including Costs, of Implementing Accrual Accounting in the Public Sector and Technical Analysis of the Suitability of Individual IPSAS Standards."
[771] Bundesrechnungshof, "Special Report Pursuant to Article 99 Federal Budget Code on the Intended Implementation of Harmonised European Public Sector Accounting Standards (EPSAS) in the Member States of the European Union."
[772] Bundesrechnungshof, 16.
[773] Interview 6.

II.2.3. Engaging (and failing to enlist) credit rating agencies (CRAs)

One further piece of evidence for the tireless effort to enlist powerful actors that can act as supply chains by providing resources, lobbying capacity, or leverage over states is the IPSASB's unsuccessful campaign to convince credit rating agencies to draw on IPSAS information. While these actors cannot demand accrual reforms from sovereign governments, given the enormous power of these institutions and the direct impact of ratings on borrowing costs, even their hinting at accrual data positively influencing sovereign ratings could be an extremely powerful driver of IPSASs diffusion. The importance of raising recognition among these actors – credit ratings agencies in particular – was recognized by the PSC even before the beginning of the standards project.[774] As one IPSASB Chairman remarked, their involvement "would drive adoption significantly, they are quite powerful actors that have to be involved".[775]

Over its history, the Board has repeatedly approached ratings agencies in particular in an attempt to enlist them and convince them to ask for IPSAS information in their ratings.[776] For example, towards the beginning of the standards project, the Board repeatedly but unsuccessfully approached major banks and ratings agencies to ask for funding.[777] In some cases, ratings agencies were the only non-IGO actors on the list of institutions that were approached, demonstrating their potential significance for the Board.[778] The Board has continued to lobby credit rating agencies trying to convince them of the benefits accrual information could have for them, for example by inviting them to join Board meetings and presentations.[779] However, ratings agencies have shown only little interest, leaving the multiple-decades long quest to enlist them fruitless.

Questioned why agencies were not asking for IPSASs or accrual data, the co-head of sovereign ratings for one ratings agency explained that they "welcome the information but do not need it".[780] Without exception interlocuters from the Board exhibited a certain degree of frustration over the fact that attempts to enlist ratings agencies has been so unsuccessful. The consensus view among interviewees was that ratings agencies "do not care".[781] The reason for this, as

[774] Public Sector Committee. Minutes of meeting. April 1993.
[775] Interview 12.
[776] Interview 12. International Public Sector Accounting Standards Board. Minutes of meeting. June 2016.
[777] Public Sector Committee. Minutes of meeting. April 2001. Public Sector Committee. Minutes of meeting. November 2001.
[778] Public Sector Committee. Minutes of meeting. November 2001.
[779] See, e.g., Fergus McCormick, "The Merits of Accrual Reporting in Sovereign Credit Analysis" (IPSASB Meeting, IMF Headquarters, Washington, DC, March 6, 2017).
[780] Interview 26.
[781] Interview 30. See also: Interview 24. Interview 2. Interview 9. Interview 12. Interview 25. Interview 28.

already indicated by the above quote, is that ratings agencies "focus more on macroeconomic analyses and taxation powers"[782] and even in absence of the accounting information "ratings agencies have tools that can get the information they want anyway".[783] A further reason for their lack of interest is that financial statements such as those produced by IPSASs are backward-looking and are only released many months after the fact.[784]

This (as of yet) unsuccessful effort to enlist a further supporter and open an additional supply chain for IPSASs is, however, less remarkable for its failure than it is as evidence for the IPSASB's tenacity in pursuing important gatekeeping institutions that may increase its reach and capacity to regulate states. Private actors will (net-)work tirelessly to enlist powerful intermediaries in its efforts to regulate the public sector. As they cannot commonly draw on formal-legal powers to accomplish this, they often need to rely on convincing relevant actors that acting as intermediaries is beneficial to them and aligns with their interests. In the case of ratings agencies, the IPSASB argues that IPSAS information could provide more comprehensive and accurate data for sovereign ratings. Encouraging states to provide IPSAS information would – so the advocates claim – give ratings agencies an essentially zero-cost method for improving their data. From the perspective of the Board the benefit would be enormous as states would be swayed into adoption given the importance of sovereign ratings. Losers would be those states not desiring to adopt accruals and those groups within states that face adverse distributional consequences as outlined in Chapter 4. As of yet, the Board has not made the benefits clear enough to ratings agencies, however; as one IPSASB staff member put it, "the convincing of key players is still going on".[785]

[782] International Public Sector Accounting Standards Board. Minutes of meeting. June 2016: 9.
[783] Interview 9.
[784] Interview 25. The evident indifference by ratings agencies, however, does not prevent advocates of IPSASs to claim a connection between IPSAS application and reduced borrowing costs as well as better credit ratings (see Interview 5). For example, in a tweet by UNCTAD, former IPSASB Chairman Ian Ball is quoted saying that "In New Zealand, the benefits of IPSAS implementation were immediate: we avoided a double downgrade from Rating Agencies", see UNCTAD ISAR, "Tweet," October 31, 2017. While proponents may argue that the effects of accrual reforms may result in better financial management and an improved financial position, establishing a direct link from adoption to ratings is not borne out by any direct evidence. In absence of ratings agencies saying IPSAS adoption directly impacted ratings, it would also be difficult to empirically establish that link due to the complexity of PFM reforms and the measurement of accrual accounting impacts (as previously discussed in Chapter 4.
[785] Interview 28.

Conclusion

Alongside the previous chapter, this chapter reveals that adoption of private sector standards by public sector entities is anything but automatic: in addition to orchestrating the resources and power of IGOs, private actors proactively and deliberately construct domestic supply chains to diffuse its standards among states as regulatory targets. The IPSASB has sought to lay the groundwork for the adoption and diffusion of its standards among states in part by strengthening and expanding the organizational infrastructure of the accounting profession globally together with IFAC. As a result, combined with its educational outreach, the Board has built a strong transnational network of professional accountants in accounting bodies and governments around the world familiar with IPSAS. In addition to profession building, the IPSASB targets states directly by sending individual IPSASB members to lobby on its behalf, strategically choosing meeting locales to generate networking opportunities with regulatory targets and inviting public sector individuals to regular lobbying events. These efforts complement its profession-building activities and are likewise aimed to build a globe-spanning constituency among individuals and organizations empowered to shape decision-making within its regulatory targets. As an additional line of effort, the Board has also sought to enlist influential organizations such as Big Four accounting firms, credit ratings agencies, and national standards setters as advocates for its standards.

Taken together, this chapter shows the additional ways that the IPSASB as a private organization has been able to extend its regulatory reach over states. The proactive, sustained, and deliberate efforts at constituency-building within states empower intermediates and allow the Board to build bridges directly to decision-making bodies. In addition to efforts at an international level vis-à-vis IGOs, this additional line of effort creates further supply chains the Board can leverage to standardize the state. These supply chains therefore endow the IPSASB with significant additional power. This is because, as was shown Chapter 5, increased choice of regulatory partners significantly increases a regulatory monopolist’s relative power vis-à-vis its partners. Already at the international level, the IPSASB as the only established international standard setter for government accounting can chose from a plethora of multilateral and regional development banks, as well as a host of other powerful IGOs to do its bidding. The establishment of powerful global networks of national-level partners alongside IGO-focused networks decreases the dependence of the Board on each individual partner. As orchestration theory argues, orchestration relationships entail mutual dependence.[786] However, some partners are less dependent than others. The IPSASB's dual strategy has therefore enabled it to become a true private ruler. In more general terms, this finding has significant theoretical implications in that it can help improve our understanding of public-private regulatory relationships as well as orchestration. The following Chapter will elaborate further on this and other findings, tying them back both to the theory laid out in Chapter 2 and the relevant literature more widely.

[786] Abbott et al., "Orchestration: Global Governance through Intermediaries."

CHAPTER 7: CONCLUSION

This thesis began with the examples of ill-fated Brazilian President Dilma Rousseff skewering her Minister of Finance over the untimely presentation of an International Public Sector Accounting Standards-compliant balance sheet, which revealed massive liabilities at a time of financial turmoil. It also began with the much calmer yet not much less surprising mechanistic impacts of the same standards on pensions policy in the state of Hesse, bearing the potential to drastically curtail policymakers' discretion. The intuitive question resulting was: Why would states subject themselves to these standards in the evident absence of coercion? Why would they allow a private standard setter to wield the power to mess up their balance sheets?

This thesis pointed out that private actors are standardizing the state. This is not just happening in public financial reporting but also other domains. The International Organization for Standardization's process management standards are used by thousands of public sector entities worldwide. These standards target processes as essential to the state as public service delivery and electoral integrity. Similarly, the Greenhouse Gas (GHG) Protocol has been expanded to prescribe GHG accounting, reporting, and mitigation in public sector organizations and policymaking generally. This has direct distributional implications not just for environmental policy but potentially all "policies and actions"[787] of government. Beginning from these observations, this thesis examined the case of the International Public Sector Accounting Standards Board (IPSASB) to shed light on the counterintuitive phenomenon of private regulation of the public sector. Theoretically, this thesis is the first to construct a framework specifically to explain the success of private regulation of the public sector. Empirically, it presents the first in-depth study of a private organization involved in private regulation of the public sector and of the methods by which it successfully spread its standards among public sector bodies. To do so, the thesis drew on thousands of pages of public and internal documents from IPSASB and its affiliates within IFAC, and 35 interviews with IPSASB members, staff, and leadership, as well as academics and officials of international and supranational organizations, subnational bodies, private firms such as Big Four accounting firms and credit ratings agencies. The depth and breadth of this empirical material enabled novel insights into

[787] World Resources Institute, "Policy and Action Standard: An Accounting and Reporting Standard for Estimating the Greenhouse Gas Effects of Policies and Actions," 2014, 6.

this case and the conditions under which transnational private actors successfully regulate the public sector.

The theory developed in this thesis approached these questions in two steps. First, it diagnosed that the existing TPR literature was unable to provide a full answer. Introducing a typology of public-private interactions, this thesis found that extant literature had left unexplored the regulatory phenomenon of private regulation of the public sector. Through dividing actors in rulers and ruled not on the basis of their legal authority but the locus of power in the regulatory relationship, the thesis was able to begin teasing out the specifics of this particular phenomenon.

Based on these conceptualizations, in a second step, the thesis then argued that existing theories such as orchestration theory can be drawn on to provide a comprehensive explanation of the "why" and "how" of private regulation of the public sector. This explanation focused on the power of private actors by explaining the diffusion of private rules from the supply side. Rather than waiting for demand by states or hoping actors with potentially aligned interests will approach them, private rulers are in the driver's seat. Pitching their products to powerful actors as highly portable solutions to a multitude of problems, superior to existing rules, and operating under the mask of technical neutrality, private rulers enlist others to do their bidding. As a result, international governmental organizations (IGOs) and other powerful actors are enlisted as regulatory intermediaries and function as supply chains for private rules.

This chapter will briefly revisit the theoretical framework in light of the empirical findings (I), explore the theoretical contributions made (II), as well as potential shortcomings and avenues for further research (III).

I. Revisiting private regulation of the public sector

Applying the above theoretical approach to the International Public Sector Accounting Standards Board (IPSASB, also "the Board"), this thesis explored for the first time a case of private regulation of the public sector. Four empirical chapters provided an in-depth case study of the IPSASB and its successful journey to becoming the dominant global standard setter for government accounting. Chapters 3 and 4 explored the institutional history of the IPSASB as well as the surprising global diffusion of its standards. Today, the IPSASB's standards touch over half of all countries in the world and are applied by all major IGOs. By giving a first glimpse of the sales pitches and demand generation strategies of the Board, those chapters began shedding light on the reason for the spread of International Public Sector Accounting

Standards (IPSASs). However, they also diagnosed that – as theorized in Chapter 2 – standards, in particular private ones, will not spread automatically. Even if they are technically superior from a strict accounting perspective, IPSASs' distributional implications make them highly political. This makes them contestable by a variety of actors within the state who stand to lose from IPSASs adoption and have a stake in the status quo.

Hence, as predicted in Chapter 2, private actors like the IPSASB cannot rely simply on the superiority or even credibility of their standards alone. While these are essential ingredients to actors becoming focal in TPR generally and private regulation of the public sector specifically, they are not sufficient conditions. Instead, as Chapters 5 and 6 argued, the IPSASB and its predecessor had to work hard for almost four decades to enlist others in the service of its standards. Chapter 5 traced the IPSASB's successful efforts to enlist powerful IGOs as regulatory intermediaries. Surprisingly, the chapter showed that even where IGOs influence the Board's agenda, the IPSASB remains firmly in the driver's seat. All orchestration relationships are a complex give-and-take between actors with generally correlated interests.[788] However, as the focal rule maker, the IPSASB maintains the power of the penholder; IGOs have no alternative but to draw on the Board's expertise as there are no other international standards to choose from and IGOs lack the capacity to develop their own. This is in line with what Mattli and Seddon argue about focal rule-makers in intermediary relationships.[789] What this thesis shows, however, is that it not only matters whether IGOs have the choice between different standard setters or not, but also whether private rulers have the choice between multiple potential regulatory partners.

II. Theoretical contributions

This finding adds to the theory developed in this thesis as well as to orchestration theory and regulatory intermediary theory (RIT).[790] In orchestration relationships, private and public actors rely on each other. As argued, the private actor relies on the public partner to spread its standards, as well as for legitimacy, credibility, and possibly funding. The public actor relies on the private partner for its expertise and the rules it produces. Now, as Mattli and Seddon argue, if the private actor is both the rule-maker in the relationship and is singular or focal, public partners such as IGOs will have no choice of forum, drastically diminishing their power

[788] Abbott et al.
[789] Mattli and Seddon, "Orchestration along the Pareto Frontier."
[790] See, Abbott et al., "Orchestration: Global Governance through Intermediaries"; Abbott, Levi-Faur, and Snidal, "Theorizing Regulatory Intermediaries."

vis-à-vis the private partner.[791] The evidence presented in Chapter 5 suggests, that the private partner's power will rise even further if the private ruler can rely on multiple regulatory partners to supply what it needs: legitimacy, credibility, funding, and diffusion channels for its standards. As the case of the IPSASB has shown, it is private actors with ample choice of regulatory partners who become true private rulers. For example, if one partner attempts to push non-correlated goals on the IPSASB, it can sustain the loss of a regulatory partner even if it might do so begrudgingly. This is so because it has the choice between many development banks and other IGOs to push its standards if one makes unreasonable demands.

This observation also ties in with the analysis, presented in Chapter 6, of the IPSASB's strategic networking at national levels. Having the global accounting profession to rely on to push its standards, greatly reduces the Board's dependence on IGOs as regulatory partners. To be clear, without successful enlistment of IGOs the Board's rise to focality would have become a much steeper climb – not least because IGOs are the best sources of legitimacy and credibility available to it. However, adding up all its additional network partners around the world – including accounting bodies, Big Four firms and National Standard Setters – the Board has a veritable buffet of intermediaries and supporters to choose from. In sum, this greatly increases the Board's bargaining power in its regulatory relationships with IGOs. Therefore, by shifting the focus onto the private supplier of rules, this thesis was able to uncover a much more complete picture of private power in TPR. The results highlight that it is important to also look at the regulatory networks that private actors build outside of IGO relationships to supplement their power.

III. Future research

One surprising empirical observation that comes out of Chapter 4 is the fact that, unexpectedly, there were a number of private national accounting bodies with direct regulatory responsibility for public sector standards. Through these organizations' embeddedness within IFAC, this gives the IPSASB direct regulatory authority by extension. This is a surprising finding because one would expect to see at least the insulating layer of an endorsement mechanism between private standards and what essentially is administrative law. The fact that these configurations exist in various countries is a finding in its own right that suggests potentially fruitful further research on these types of regulatory relationships.

[791] Mattli and Seddon, "Orchestration along the Pareto Frontier."

One potential flip side of a theory so sensitive to power relations within regulatory relationships is that it tends to require careful qualitative evaluation. While the theory developed has been shown to capture the intricacies of private regulation of the public sector, as well as improve our understanding of TPR more generally, and therefore should provide and excellent starting point for future research in this field, it might be slightly less well suited as a basis for quantitative studies. However, as the analysis presented as shown, the individual facets of the theory can be operationalized to collect relevant data that can feed into more quantitative analyses of private regulation of the public sector. The findings from the in-depth case study point to future avenues for research. For example, future studies could investigate the link between development funding and IPSASs adoption in greater detail.

In a similar vein, it is important to recognize the limitations in generalizability that come with single case-study research. While these shortcomings are more than balanced out by the richness of the empirical case made and the theoretical contributions that flow from it, it would be worth in the future to expand the universe of cases of private regulation of the public sector. In some ways, the IPSASB case may be a special case in that it features a well-organized profession. Professions have long been recognized as particularly powerful drivers of diffusion and harmonization.[792] At the same time, however, it is hard to see why other private rulers would not employ similar strategies with success. The theory of standardizing the state is sufficiently general that it should apply to all private rulers of the public sector – as well as inform analyses of TPR beyond this type of regulatory relationship. Expanding the universe of cases and seeing which other private regulators of the public sector are out there would be a definite gain for TPR scholarship. This thesis and the theory put forward, provide a starting point for such research.

Particularly promising candidates for further research are standards similar to IPSASs previously mentioned: ISO process management standards and GHG Protocol standards. Both represent cases where private rule-makers target the public sector specifically. It would be promising to ask to what extent these cases are explained by the theory presented herein. This would help provide a further good test for the theory and an opportunity to refine it. To this end it would be important to establish in detail to what extend these cases might differ empirically from the IPSASB case.

[792] DiMaggio and Powell, "The Iron Cage Revisited."

Finally, the scope could be increased to also include other private influences of the public sector. Potential cases include the work of management consulting firms in the public sector, as well as investor-state dispute settlement mechanisms. As indicated earlier, these cases are likely quite different as they do not involve formal rule-making. Therefore, care would need to be taken not to over-stretch the theory. However, an in-depth study of the power wielded by private actors over the state via these routes would lead to an even richer account of public-private interactions as well as help delineate the boundaries of the theory presented in this thesis and the phenomenon of private regulation of the public sector.

Conclusion

This thesis has analysed a previously unexplored and intuitively puzzling type of transnational regulatory relationship: private regulation of the public sector. Drawing and expanding on existing theories, the thesis has argued that to explain this phenomenon we need to look beyond private actors as intermediaries: we need to take them seriously as rulers and regulators even of states. To do so, the theory presented shifted the focus from demand for TPR and the ways in which intermediaries can enhance global governance by states and IGOs, to the supply side of transnational private rules. Surprisingly, it has found that private actors not just wield significant power in transnational regulation but are often the actor that decides where TPR goes. States and IGOs often follow. This perspective opens up a new and interesting research agenda that can contribute significantly to a more accurate, comprehensive and nuanced understanding of the complex phenomenon of TPR.

List of Interviews

Interview 1. IMF official. June 20, 2018. In-person.

Interview 2. Former IPSASB Chair. June 15, 2018. In-person.

Interview 3. Former IPSASB Chair. June 25, 2018. In-person.

Interview 4. Former IPSASB Chair. July 3, 2018. Call.

Interview 5. IPSASB Board Member. June 27, 2017. In-person.

Interview 6. IPSASB Board Member. June 28, 2017. In-person.

Interview 7. IPSASB Board Member. June 29, 2017. In-person.

Interview 8. UN official. June 29, 2017. In-person.

Interview 9. IPSASB Board Member. June 30, 2017. In-person.

Interview 10. IPSASB Board Member. June 30, 2017. In-person.

Interview 11. IPSASB Board Member. July 11, 2017. Call.

Interview 12. IPSASB Chair. July 14, 2017. In-person.

Interview 13. IPSASB Board Member. June 27, 2017. In-person.

Interview 14. European member of parliament. June 26, 2017. In-person.

Interview 15. IPSASB staff member. June 26, 2017. March 7, 2018. June 20, 2018. In-person.

Interview 16. EY partner. June 29, 2017. In-person.

Interview 17. Eurostat official. June 28, 2017. In-person.

Interview 18. IPSASB technical advisor. June 28, 2017. In-person.

Interview 19. IPSASB Board Member. June 29, 2017. In-person.

Interview 20. IPSASB staff member. June 30, 2017. June 21, 2018. In-person.

Interview 21. Eurostat official. March 6, 2018. In-person.

Interview 22. IPSASB technical advisor. March 6, 2018. In-person.

Interview 23. IPSASB staff member. March 7, 2018. In-person.

Interview 24. IFC official. March 8, 2018. In-person.

Interview 25. OECD official. March 8, 2018. In-person.

Interview 26. Head of sovereign ratings at a ratings agency. March 8, 2018. In-person.

Interview 27. IPSASB technical advisor. March 9, 2018. In-person.

Interview 28. IPSASB staff member. March 9, 2018. In-person.

Interview 29. Italian ministry of finance official. June 21, 2018. In-person.

Interview 30. IPSASB Board Member. June 29, 2017. In-person.

Interview 31. IMF official. February 9, 2020. Call.

Interview 32. Standard setting official. March 29, 2019. Call.

Interview 33. World Bank consultant. March 19, 2019. Call.

Interview 34. Academic. December 18, 2018. Call.

Interview 35. Former IPSASB Chair. November 27, 2017. Call.

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