



Linking Accounting/Auditing Environment and the Remittances of Africans in Diaspora

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This paper investigates empirically the link between the inflow of Diasporas remittances and the environment of accounting/auditing in 10 African countries. The result using Spearman's rank correlation indicates the existence of a positive relationship (correlation coefficient r_s is 0.36), but the strength of the relationship is weak (significant level of 0.05). The quality of accounting and auditing as represented by their environment is a stimulus that could enhance the inflow of Diasporas remittances. The study therefore recommends that African countries should strategically and proactively refocus attention on developing accounting/auditing environment in order to attract reasonable volume of remittances.

Keywords: accounting/auditing environment, Diasporas, remittances, Africa

Introduction

From a global perspective, economic and social development is increasingly being driven by Diaspora remittances which have become an important source of income in many developing economies. For instance, the World Bank (2007) observed that the total value of remittances had been increasing steadily and by 2005, it was estimated that the total value worldwide was over USD 230 billion, involving some 175 million migrants. Since 2000, the growth of remittance worldwide has averaged 15% in annual terms.

It was also further noted by the World Bank that remittances now probably represented the largest source of external financing in developing countries. In the case of sub-Saharan African countries, the World Bank's estimates of remittances totaled \$3.2 billion in 1995 and increased to \$4.6 billion in 2000. In 2005, sub-Saharan Africans in Diaspora sent home approximately \$9.4 billion. This represents more than 102% over the remittance of the year 2000. In some sub-Saharan African countries, remittances account for as much as a third of Gross Domestic Product (GDP). For instance, Gupta, Pattillo, and Wagh (2007, p. 6) noted that in 2005, remittances were almost "28% of GDP in Lesotho, and more than 5% in Cape Verde, Guinea-Bissau, and Senegal". They also noted that in absolute terms, Kenya, Nigeria, and Senegal were the largest recipients of remittances in sub-Saharan Africa.

Notwithstanding these seemingly inspiring figures, the volume of inflow of remittances to Africa is low. Even at that, and thus it has become imperative to ascertain the association between measures of accounting

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and auditing environment, and Diaspora remittances in some selected African countries. For instance, it is recorded that Africa receives just 4% of the total remittance flow from developing economies; and that the share of remittances to the region is just about 33% of those of India (Gupta et al., 2007). The sub-Saharan Africa share of remittances has remained the least among all the developing economies (Maimbo & Ratha, 2005; Gupta et al., 2007; Hansen, 2008; Ratha & Silwal, 2009). On the average, remittances to Africa (especially sub-Saharan African countries) are about 2.5% of GDP as compared to almost 5% for other developing countries. The remittances are low not necessarily because the Diasporas are financially weak. This position is premised on the confirmation that many members of Diaspora communities are known to be quite wealthy. Ketkar and Ratha (2007, p. 18), for example, observed that Jewish and Indian communities earned among the “highest levels of per capita incomes in the United States”. As a result, Ketkar and Ratha (2007, p. 18) further observed that, the migrants had “sizable amount of assets invested in stocks, bonds, real estate, and bank deposits”, especially in well established markets where accounting information was generally more available and credible. The pertinent question at this stage is: how much of these investments are domiciled in Africa?

The level of remittances is low perhaps due to poor macro-economic environment in Africa and lack of credible investment opportunities. This situation has resulted in much of the remittances not being accounted for and usually underestimated (World Bank, 2007; Gupta et al., 2007), transmission of some remittance through informal channels and so are not reflected in official statistics (Ezeoha, 2009), limited formal financial infrastructure to manage the flow (Page & Plaza, 2006; Biller, 2007; Gupta et al., 2007). However, there is evidence that recent events suggest an increasing trend in remittances from Africans in Diaspora. According to a recent survey carried out by African Development Bank and the World Bank (as cited in Timmer, 2011), Africans across the globe directly invested \$40 billion into the continent’s economy in 2010. It was further noted in the report that the top investment by the Africans in Diaspora ranged from land purchases, building a house, and starting a business, while education was the second highest use of remittances from outside Africa into Nigeria and Uganda; the third highest in Burkina Faso and fourth highest in Kenya.

In spite of the obvious appeal of migrant remittances in the economic and social welfare of societies, yet, the investigation of the potential of accounting/auditing environment to enhance and support better inflow of such remittances has not received any serious attention in Africa. This study is therefore an attempt to bridge that gap. In this paper, an analysis is carried out using World Bank Report on the Observance of Standards and Codes (ROSC) and Diaspora remittances to empirically investigate the relationship between remittances and accounting/auditing environment.

The remaining part of this paper is organized as follows: The next section reviews recent literature on Diaspora remittances and the link between accounting and development, this is followed by the section which outlines the underlying arguments which support the research hypothesis, the section that describes the data and methodology used in this study comes next, following this is the section that reports the result of the study and finally the section that contains the conclusion and recommendation.

Literature Review

Role of Accounting in Development

There is evidence in the accounting literature which suggests that accounting can and does play a significant role in the quest for advancement in socio-economic development of nations (Enthoven, 1973;

Perera, 1989; Wallace, 1990). This role is made possible because there is a nexus between accounting and economic well-being, which at a macro level, should translate to the promotion and advancement of economic development (Anao, 1995). The nexus flows from the role which accounting information traditionally plays, on the one hand in securing accountability, and on the other, in improving and facilitating optimal decision making in any situation where choice among alternatives is involved. This suggests that the accounting function is inseparable from the task of managing national economies of which, Diaspora remittances form a part.

Therefore, the link between accounting/auditing environment and Diaspora remittances may not be understood without an excursion into the role of accounting in economic development. The exact role of accounting in national socio-economic development depends, to a large extent, on the development paradigm that is under consideration. Hence, Rahaman (1997, p. 9) argued that since development paradigms differed significantly, there was “a strong possibility of multiple roles for accounting contingent upon the development tradition that a particular nation and its leaders choose to adapt”. Based on this premise, the role of accounting in development can be viewed from three theoretical perspectives—the conservative tradition, the reformist tradition and the radical tradition.

At the core of the conservative tradition, according to Haque (1999, p. 69), is the theory of balanced growth which opines that “capital shortage is the main cause of economic backwardness” and a balanced growth strategy is critical to overcome capital shortage. Accounting/auditing environment can be conceived as being within the balanced growth concept. This is because one role of accounting under the conservative tradition is to accumulate the necessary data, analyze and interpret the data and report the resulting information to corporate management, heads of government institutions, and other stakeholders (Diasporas inclusive) for rational economic decision-making. Similarly, the role of accounting involves attestation which involves the accountant providing the much needed assurance that people in trusted positions are conducting their affairs honestly and in accordance with accepted principles.

In contrast to the conservative tradition, it is the reformist tradition which originates from the dissenting views about the conservative theories of development. It is maintained under the reformist tradition that a radical transformation of the developing world is impossible within the current world economic order. Under this tradition, accounting information is viewed as rendering partial visibility reflecting extant power structure (Burchell, Clubb, Hopwood, Hughes, & Nahapiet, 1980). The reformists expect accounting to illuminate unjust economic practices and thus provide national leaders and investors with the necessary information for seeking adjustments to structural issues. That is, accounting information should provide national leaders and investors with a basis for evaluating the effects of particular national policies because such an exercise is an inherent part of any path to development. Accountability issues are essential for the success of such relationships and accounting provides this link. This link is crucial especially in African countries if any meaningful response must be got from Africans in Diaspora in terms of remittance of funds. The radical tradition from its perspective, opposes both the conservative and the reformist traditions, arguing that for development to take place in developing countries, Marxist and Neo-Marxist ideologies would be most appropriate. The implication of this perspective is that any advancement in economic development can be jeopardized without effective accounting/auditing environment.

Although different perspectives of the role of accounting exist, there is however a consensus that accounting has a role to play in development. Thus, the imperative of strong accounting/auditing environment can be inferred from these various perspectives. Consequently, these perspectives can be said to

support the view of Easterly and Levine (1997) who have empirically demonstrated that economic growth is affected by “the quality of governance (ethnic divisions, political instability), schooling, state of the financial system, exchange markets distortions, high government deficits, and insufficient infrastructure”. Thus, inflow of remittance is likely to flourish best when the accounting/auditing environments are predictable.

Linking Accounting/Auditing Environment with Diaspora Remittances

The literature on the determinants of remittances of Diasporas has been growing rapidly in recent years. The main areas of focus, as observed by Roache and Gradzko (2007, p. 5) have been the “socio-demographic profile of migrants and families, macroeconomic, political, and other conditions (such as natural disasters) prevailing in the country of origin, transaction costs and rate of return factors that may affect portfolio decisions.” Though, portfolio decision is a crucial determinant of Diaspora remittance, the role of accounting/auditing environment in relation thereto, has however not received any serious attention from researchers. The accounting profession has prime responsibility for promoting accountability in the management of the resources of a country whether in the private or public sectors. For instance, Kimbro (2002, p. 332) identified a dual role for accounting in terms of provision of information and auditing of same. He stated thus financial statements provided information about “economic transactions and the auditing profession serves as a monitoring mechanism to check on the accuracy of this information thereby providing an enormous potential for establishing accountability and detection of corruption”.

The import of the above assertion as noted by Shearer (2002, p. 569) is that, accounting practices enact accountability and therefore suggests that it is necessary “to expand the accounts we prepare in an effort to be more accountable to the other”. Similarly, Potter (2005, p. 269) noted that accounting information can “influence perceptions, change language, and infuse dialogue and thereby permeate the ways in which organizational and social priorities are expressed and prioritized”.

Thus, accounting serves as a mirror through which the images of accountability can be made transparent and viewed by stakeholders, especially Diasporas who are separated by physical distance from their countries. Where the structures that support accounting/auditing (such as the environment) are weak, the influence of accounting/auditing would by implication be weak also.

However, in many Africa countries, accounting and auditing performance has been unsatisfactory over the past years. This situation, according to the World Bank (1996, p. 1), is primarily due to “a critical shortage of accountants at all levels, the lack of recognized and accepted accounting and auditing standards, and the inadequacy of accounting development”. This situation is particularly worrisome because sustained economic growth cannot be maintained without a sound accounting infrastructure and a robust accounting profession (Olowo-Okere, 2005). Given that resources are limited in Africa, it is not only vital that maximum advantage is taken of Diaspora remittances, that also imperative that available resources are put to the best use and not lost through poor decision making and inefficient financial management arising from poor accounting/auditing environment.

Therefore, in order to attract the needed remittances from Diasporas, it becomes instructive to adopt/adapt the views of the World Bank (1996) which had proposed that countries that were desirous of fighting corruption and improving their accountability levels and growth potentials should among other things, be looking in the direction of; developing a professional base of accountants, adopting and applying

internationally acceptable accounting standards and empowering a strong legal framework for supporting accounting practice.

This call has become even more relevant today that most countries need enormous resources to execute their programs and remittances from migrant workers to provide the needed window to draw such funds. However, such windows can only remain open with a sizeable and wealthy Diaspora and a strong and transparent accounting and legal system for contract enforcement at home, absence of civil strife and the presence of national banks and other institutions in destination countries (Ketkar & Ratha, 2007).

What is instructive from the assertion above is that remittances from Diaspora would be constrained without a sound accounting system built on solid environment. This can be better conceptualized and understood from the model proposed in Figure 1.

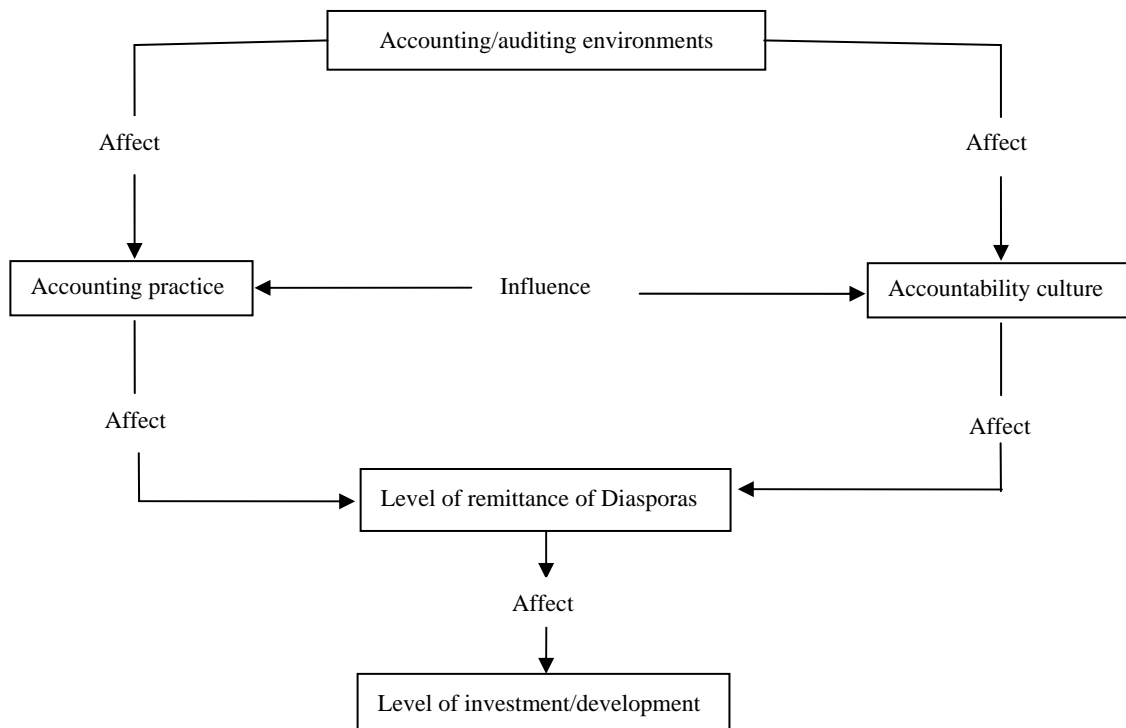


Figure 1. Relationship between accounting/auditing environment and remittances.

The proposed model suggests that the quality of accounting/auditing environment can indirectly affect level of remittance from Diaspora which in turn affects their investment perceptions. The reasoning, as shown in Figure 1, is that accounting/auditing environment (strong/weak) in countries can affect accountability and accounting practice. It is also reasoned that accounting practice and accountability culture have a mutual influence on one another and both can potentially affect immigrants' perception about their countries' ability to successfully receive and manage remittances. The perceptions in turn, could dictate the level of remittances by Diasporas.

Assessing State of Accounting/Auditing Environment in Africa

The United Nations in one of its observations underscored the need for quality financial management in developing countries. It observes that there is a "correlation between financial management in developing countries and the level of economic development" (United Nations, 1991). In assessing the state of

accounting/auditing environment in African countries, therefore, it would be pertinent to reflect on a number of questions and issues based on the World Bank ROSC, thus: First, do professional bases of accountants exist in African countries in terms of number and quality that can support timely, reliable and adequate information for the management of the economy? Second, is internationally acceptable accounting standards applied in financial management in African countries, especially in the private sector? Are there avenues and opportunities for empowering strong legal framework for supporting accounting/auditing practice in African countries and do competent oversight bodies exist?

These questions are considered relevant because, according to Chambers and Penman (1984, p. 32) and Ahmed (2003, p. 18), useful accounting information derives from qualitative financial statements which help in efficient allocation of resources by “reducing dissemination of asymmetric information and improving pricing of securities”. In an environment of quality accounting/auditing practice therefore, investors are assured that artificial and misleading picture of transactions and events are not created. It is such environments that can induce Diasporas to invest in African countries and thus increase their remittances.

Though for majority of African countries, there is a multiplicity of laws and bodies for the regulation of accounting, financial reporting and auditing requirements of companies, however, some events suggest that the environment of accounting/auditing falls short of the standard required. For instance, Owolabi (2011, p. 13) noted that the accounting and auditing practices in majority of African countries, suffered from “institutional weaknesses in regulation, compliance, and enforcement of standards and rules”. In Nigeria, credence is lent to the above assertion from evidence provided by the various accounting scandals such as (Lever Brothers, Union Dicon Salt, Cadbury, Oceanic Bank, among others) which have triggered a crisis of confidence in the reliability and integrity of financial reports. The audit committees of some Nigerian companies have been implicated in contributing to the corporate scandals by not performing their roles effectively (ROSC, 2004; Okike, 2007; Bakre, 2007).

The present study seeks to contribute empirically to the literature on accounting and auditing environment and Diaspora remittances. This is done by investigating any correlation between Diaspora remittances and the ROSC of the World Bank.

Hypothesis Development

The overall objective of this study is to ascertain the association between measures of accounting and auditing environment and Diaspora remittances in the selected African countries. We label a proxy for measuring the quality of accounting and auditing environment such as ROSC. This variable measures many attributes of accounting and auditing environment for various countries in Africa as investigated and reported by the World Bank. This proxy is defined as shown in Equation (1):

$$ROSC = \sum_{i=1}^n a_i \quad (1)$$

Where the variables $(a_1), (a_2), \dots, (a_{10})$ are defined as below:

- a_1 : Efforts towards alignment of accounting with internationally accepted standards and codes;
- a_2 : Efforts towards alignment of auditing with internationally accepted standards and codes;
- a_3 : Corporate accounting and disclosure policies;
- a_4 : Monitoring and enforcement of financial reporting requirements in the banking sector;

- a_5 : Legal mandate to follow compliance with IFRS and ISA;
 a_6 : Compliance gaps in accounting and auditing;
 a_7 : Existence/development of local accounting bodies;
 a_8 : Local accounting and auditing standards;
 a_9 : Existence of independent oversight of auditing profession;
 a_{10} : Quality of accountancy education and training (Owolabi, 2011).

An analysis of the ROSC in some selected African countries indicates a possible nexus between accounting/auditing environment and economic well-being, which at a macro level, should be translated to the promotion and advancement of economic development. The nexus is premised on the role which accounting information plays in securing accountability, improving and facilitating optimal decision making in any situation where choice among alternatives is involved. This suggests that the accounting function is inseparable from the task of managing national economies of which, Diaspora remittances form a part. Therefore, if Diasporas are to maintain their inflow of funds to Africa, they need to perceive that the accounting/auditing environment is favorable and the investment of their funds is aligned with their expectations with regard to accountability. On this basis, we hypothesize as follows:

H_0 : There is a negative relationship between the degree to which a country observes internationally recognized accounting/auditing standards and codes and level of remittance to that country from her nationals in Diaspora.

To test the hypothesis of this study and following Owolabi (2011), we use the measures of accounting/auditing quality of some selected African countries computed from the World Bank ROSC (2001-2007) as indicated below in Table 1. The raw score for each country and its rank among the group is also indicated in the table.

Table 1

World Bank ROSC: Accounting/Auditing Environment in Some Selected African Countries (2001-2007)

S/N	Country	Variable										$\Sigma\alpha_i$	%	Rank R_y
		α_1	α_2	α_3	α_4	α_5	α_6	α_7	α_8	α_9	α_{10}			
1	Botswana	4	4	4	4	0	2	2	0	0	3	23	46	7
2	Egypt	4	4	3	3	2	3	3	3	0	2	27	54	9
3	Ethiopia	2	2	1	1	2	2	1	0	0	1	12	24	1
4	Ghana	2	2	2	3	2	2	2	2	0	1	18	36	3
5	Morocco	3	3	3	3	3	2	3	3	0	3	26	52	8
6	Nigeria	2	2	2	3	2	2	2	2	0	2	19	38	5
7	Tanzanian	2	2	3	0	1	2	3	3	0	2	18	36	3
8	Tunisia	4	4	3	3	2	3	3	3	4	3	32	64	10
9	Kenya	3	3	3	2	2	3	2	2	0	2	22	44	6
10	Uganda	2	2	2	3	2	2	0	0	0	2	17	34	2

Note. Source: Owolabi (2011).

The annual remittances from Diasporas from the selected African countries and for the period of 2001-2007 are obtained, the average remittance for the period per country computed and the corresponding rank obtained as shown in Table 2.

Table 2

Countries-Remittances (RMT) in Millions of US Dollars

Year	Botswana (\$M)	Egypt (\$M)	Ethiopia (\$M)	Ghana (\$M)	Kenya (\$M)	Morocco (\$M)	Nigeria (\$M)	Tanzanian (\$M)	Tunisia (\$M)	Uganda (\$M)
2001	0.35	2,911	18	45.9	50.9	3,260	1,391	5.3	826	342
2002	0.015	2,893	32	43.5	57	2,877	1,166	5	965	420
2003	0.22	2,960	46	65.5	65.8	3,613	1,208	1.9	1,107	306
2004	50.8	3,340	133	82.3	375	4,220	1,062	5.7	1,268	310
2005	82.3	5,013	173	99.3	424	4,589	2,272	9.12	1,195	321
2006	78.7	5,329	169	105	570	5,451	3,328	8.9	1,303	411
2007	800	7,655	355	117	645	6,730	3,328	8.3	1,446	451
Total	1,012.38	30,101	926	558.5	2,187.7	30,740	13,755	44.22	8,110	2,561
Average	145	4,300	133	80	313	4,391	1,965	6	1,159	366
Rank R_x	4	9	3	2	5	10	8	1	7	6

Note. Source: Author computation based on World Bank development indicators.

Research Method

The correlation between the measure of accounting/auditing (ROSC) and that of Diaspora remittances (RMT) is examined by computing the Spearman coefficient of rank correlation, r_s given as:

$$r_s = 1 - \frac{6 \sum_{i=1}^n d_{Ri}^2}{n \times (n^2 - 1)} \quad (2)$$

Where: n = the sample size;

R_x, R_y represent respectively the rank of variables X and Y ;

$d_{Ri} = R_{xi} - R_{yi}, i = 1, 2, \dots, n$.

The rank correlation coefficient is a relative measure that varies from -1 (a perfect negative relationship between X and Y) to +1 (a perfect positive relationship between X and Y). The closer is r_s to these extremes, the stronger is the relationship between X and Y . The closer is r_s to 0, the weaker is the relationship between X and Y . If X and Y are independent of each other, there is no relationship and thus the coefficient of rank correlation is 0 (see Table 3).

Table 3

Determining Spearman's Coefficient of Rank Correlation

Country	Average (RMT), X	Rank R_x	Average (ROSC) Y	Rank R_y	* d_R	d_R^2
Botswana	145	4	46	7	-3	9
Egypt	4,300	9	54	9	0	0
Ethiopia	133	3	24	1	2	4
Ghana	80	2	36	3	-1	1
Morocco	313	5	52	8	-3	9
Nigeria	4,391	10	38	5	5	25
Tanzanian	1,965	8	36	3	5	25
Tunisia	6	1	64	10	-4	16
Kenya	1,159	7	44	6	1	1
Uganda	366	6	34	2	4	16

Notes. Source: From Table 1 and 2. * $d_R = R_x - R_y$.

Results and Discussions

Using Equation (2) and the information provided in Table 3 of the correlation between the measure of accounting/auditing environment (ROSC) and that of Diasporas RMT yields a Spearman coefficient of rank correlation, r_s of 0.36. At this level of r_s the *Z score* is 1.09 which is less than the critical Z value of +1.645 for a one-tailed test at a significant level of 0.05. The r_s value of 0.36 represents a positive rank correlation between the level of remittances from Diasporas and the accounting/auditing environment. However, the strength of the relationship is not so high as r_s of 0.36 is not very close to 1.00. Besides, the *Z score* of 1.09 is less than the critical value of +1.645 at a significant level of 0.05. The result is encouraging being the first known attempt at linking remittances from Diaspora to accounting/auditing environment.

Conclusions

In spite of the obvious appeal of migrant remittances in the economic and social welfare of societies, yet, the potential of accounting/auditing environment to enhance and support better inflow of such remittances has not received any serious attention in Africa. We have shown empirically in this paper that there is a positive relationship between the level of remittances of African Diasporas and the prevailing accounting/auditing environment. For African countries to fully maximize their potential of driving economic development and ultimately and economically becoming a force to be reckoned with, there has to be a significant flow of funds from Diasporas into the economic (especially) financial markets to assist in providing deeper liquidity with the resultant reduction in the cost of capital. This would in turn impact production, employment, and living standards. A key inducement, therefore, is congenial accounting/auditing environment that can promote and engender high quality and full disclosure of financial information.

The policy implication which may be drawn from this study is that African countries can improve their inflow of funds from African Diasporas and thus ensure economic growth performance, not just by investing on the traditional sources of growth such as investment in physical and human capital and trade, but also by strategically and proactively refocusing attention on developing accounting/auditing environment. Such a refocusing holds the promise of attracting more remittances because Diasporas need to perceive that the accounting and business environments are favorable and the investment of their funds is aligned with their expectations with regard to accountability.

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