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Accounting Changes in a Developing Country

*– A discussion about the appropriate level of
disclosure of accounting information for small and
medium sized companies in Bolivia*

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Preface

To work with this thesis has been a very interesting and enjoyable experience, not least since the major part of the investigation was conducted in Bolivia, a country very far from Sweden, both in distance and in culture. Latin America, and the development problems that this thesis is linked to, were chosen because of the authors' interest in development issues, and also for their curiosity of Latin America.

In order to find an appropriate topic for the thesis, the authors made contact with the Swedish International Development Cooperation Agency (SIDA) regarding a planned development project that was published on their homepage. This project concerned the introduction of a standardised chart of accounts in Bolivia. Representatives from SIDA supplied the authors with information regarding the project along with valuable contacts, and this thesis could not have been written without their cooperation, why special thanks are directed to Carl-Gustav Svensson and Ruddy Ampuero at SIDA.

There are numerous of other persons in Sweden as well as in Bolivia, who in different ways have helped make the realisation of this thesis possible. The authors wish to thank all interviewees and other persons with whom they have cooperated, whose names can be found in section 8.5 in the reference list. Thank you for taking time to make the research in this thesis possible. It has been marvellous to be received with such enthusiasm as by several interviewees and to be able to perform this study in another country and to feel welcomed by the people there. The authors would also like to thank their tutor, Lars-Eric Bergevärn, for his persistent support, and for giving much insightful criticism and good ideas. Furthermore, the authors are very grateful to their families who provided financial support, as well as encouragement, which was crucial for the actual realisation of the project.

The authors' aim is that this thesis will be used as a source of information for SIDA and other interested parties, when it comes to issues concerning accounting in Bolivia, and particularly in small and medium sized companies. In order to facilitate for the reader a word list in English-Swedish-Spanish is to be found first among the appendices. With the following "eye-opener", the authors now wish you, the reader, a pleasant reading:

"The truisms trot of the tongue- "There always have been rich and poor... There always have been wars... You can't change human nature". So we accept the unacceptable, telling ourselves we are bowing to the inevitable. But the coexistence of extremes of wealth and poverty, or of power and vulnerability, is not inevitable. It is the result of innumerable human choices, actions and non-actions. We do not bow to physical diseases as inevitable – polio, measles, malaria, TB. Nor is there any reason to bow to social sickness and discords, as many millions of courageous and committed people show through the lives they live. The challenge, as with all that is not right, is to analyse, reflect and act to make things better."

Robert Chamber, *Whose Reality Counts? Putting the first last* (1997),p.2.

Madeleine Ajax and Andreas Liljeheden, Göteborg, Sept. 26, 2004

Abstract

Title: Accounting Changes in a Developing Country: A discussion about the appropriate level of disclosure of accounting information for small and medium sized companies in Bolivia.

Background: Bolivia, which is the poorest country in South America, is in great need of support from other countries. The Swedish International Development Cooperation Agency (SIDA), as one of the country's external contributors, has made plans to contribute to a project named Project 205, involving the introduction of a standardised chart of accounts and improved accounting regulations and institutions. This thesis, which is a proposed advancement of Project 205, focuses on Bolivian small and medium sized companies.

Purpose and problem: The main purpose has been to investigate and discuss what would be an appropriate level of mandatory disclosure of accounting information for small and medium sized companies in Bolivia. In order to reach this purpose, the authors have investigated both the demand and supply of accounting information. That is, what accounting information do the most important external users demand from Bolivian small and medium sized companies and what are these companies' prerequisites to account.

Method: In order for the authors to answer the research questions, a field study has been conducted in Bolivia during May and June 2004. In the study, the Bolivian lenders and the state have been considered as the most important external users that hence have been investigated according to their demand for accounting information. Theory has been used to make this selection, along with the selection of what factors to investigate regarding small and medium sized companies prerequisites to account. The selections are explained further in the method chapter.

Result, analysis and conclusion: The investigation shows that at present, there is a large gap between the users' demand for accounting information and the small and medium sized companies' abilities to present the demanded information. The authors have however concluded that most lenders are willing to lower their demand, given that the small and medium sized companies' accounting information is supported by a standardised and trustworthy accounting system. The authors think that the financial reports to legally require from the Bolivian small and medium sized companies should be as simple as possible and preferably only consist of a simplified cash flow statement and balance sheet and possibly also a basic income statement.

The authors have also identified three decisive requisites in order for the new Bolivian accounting system to function. First and far most, the accounting knowledge of small and medium sized companies has to be improved through education, since they today lack both technical and theoretical knowledge of how to account. A control organ is also of great importance in order to guarantee the reliability of the accounting. Ultimately, there is a need for changing the negative societal attitudes towards accounting in order to impede the enormous informality in the country and the infamous and widespread "double accounting".

The changing of the Bolivian accounting system naturally implies large costs, but the authors believe that these costs, in the long run, will be outweighed by the potential benefits, reason for why this project is considered worthwhile.

Resumen

Título: Cambios del sistema contable en un país en vías de desarrollo: Una discusión acerca del nivel apropiado de la presentación obligatoria de información contable para las PYMES en Bolivia.

Introducción: Bolivia, el país más pobre del América del Sur, depende en gran parte de contribuciones de otros países. La Asociación Sueca de Desarrollo y Cooperación Internacional (ASDI), que es uno de los contribuidores externos, ha hecho planes de contribuir a un proyecto nombrado Proyecto 205, incluyendo la introducción de un plan único de cuentas y el mejoramiento de las regulaciones e instituciones de contabilidad. Este trabajo, enfocado en pequeñas y medianas empresas (PYMES) bolivianas, es una expansión del Proyecto 205, propuesta por los autores.

Objetivo y problema: El objetivo principal ha sido discutir e investigar que sería el nivel apropiado de la presentación obligatoria de información contable para PYMES en Bolivia. Para cumplir con aquel objetivo los autores han investigado tanto la demanda de información contable por parte de los usuarios más importantes como la oferta de información contable, es decir qué requisitos tienen las PYMES bolivianas para contabilizar.

Método: Para contestar las preguntas de investigación los autores han hecho un estudio de campo en Bolivia durante mayo y junio 2004. En el estudio los prestamistas bolivianos y el estado han sido considerados los usuarios externos más importantes y que por tanto, han sido objeto de investigación en cuanto a la demanda de información contable. Los autores han utilizado teoría tanto para seleccionar los usuarios externos más importantes como para determinar cuáles son los factores a investigar en cuanto a los requisitos a contabilizar para las PYMES bolivianas.

Resultado, análisis y conclusión: La investigación muestra que hoy en día existe un gran hueco entre la demanda de información contable y la oferta. Las PYMES bolivianas tienen grandes problemas a presentar la información contable que demanda los usuarios externos debido a que no tienen los requisitos para hacerlo. Sin embargo, los autores han concluido que la mayoría de los prestamistas están dispuestas a descender sus demandas si la información contable de las PYMES fuera soportada de un sistema de contabilidad estandarizado y fiable. Los autores opinan que los informes financieros que debieran ser legalmente requeridos de las PYMES deberían ser tan simples como posible, y consistir preferentemente de sólo un estado de flujos de caja y un balance simplificados y posiblemente también un estado de resultado básico.

Los autores han identificado tres requisitos decisivos para que funcione el nuevo sistema de contabilidad boliviano. Primero, el conocimiento en cuanto a contabilidad en las PYMES debe de ser mejorado a través de educación como hoy faltan de conocimiento para contabilizar, tanto técnico como teórico,. Un órgano de control también es de gran importancia para garantizar la confianza y la fidelidad de la contabilidad. Finalmente, hay una necesidad de cambiar las actitudes sociales negativas contra la contabilidad para impedir la enorme informalidad en el país y también la contabilidad doble extensa y de mala fama.

El cambio del sistema contable boliviano naturalmente implica costes altos, sin embargo, los autores creen que esos costes serán superados de los beneficios potenciales a largo plazo. Por tanto, los autores consideran que éste proyecto merece la pena.

Sammanfattning

Titel: Redovisningsförändringar i ett utvecklingsland: En diskussion om en lämplig nivå av obligatorisk framställning av redovisningsinformation bland små-, och medelstora företag i Bolivia.

Bakgrund: Bolivia, som är Sydamerikas fattigaste land, är i stort behov av stöd från andra länder. The Swedish International Development Cooperation Agency (SIDA), vilken är en av landets externa biståndsgivare, har planerat att bidra till ett projekt kallat Projekt 205, vilket innebär en introduktion av en standardiserad kontoplan samt förbättring av redovisningsreglering och institutioner. Denna uppsats, som är en föreslagen utveckling av Projekt 205, fokuserar på små och medelstora företag i Bolivia.

Syfte och problem: Huvudsyftet i denna uppsats har varit att undersöka vad som skulle vara en lämplig nivå på den obligatoriska framställningen av redovisningsinformation för små och medelstora bolivianska företag. För att kunna svara på denna fråga har författarna undersökt vilken redovisningsinformation de viktigaste externa användarna efterfrågar av bolivianska små och medelstora företag, samt vilka förutsättningar dessa företag har att redovisa.

Metod: För att kunna svara på frågeställningen ovan så har författarna genomfört en fältstudie i Bolivia under maj och juni 2004. I studien har de bolivianska långivarna samt staten ansetts vara de viktigaste externa användarna varpå dessa aktörer har blivit studerade rörande efterfrågan av redovisningsinformation. Teori har använts för i urvalet av de viktigaste externa användarna men även för att bestämma vilka faktorer som skall studeras angående de bolivianska små och medelstora företagens förutsättningar att redovisa. Detta urval beskrivs mer utförligt i metodkapitlet.

Resultat, analys och slutsats: Undersökningen visar att i nuläget så är det ett stort glapp mellan användarnas efterfrågan på redovisningsinformation och små och medelstora företags möjligheter att framställa den efterfrågade informationen. Författarna har dock kommit fram till att de flesta långivarna är villiga att sänka efterfrågan, förutsatt att de små och medelstora företagens redovisningsinformation stöds av ett standardiserat och tillförlitligt redovisningssystem. Författarna anser att de finansiella rapporter som skall krävas enligt lag av små och medelstora bolivianska företag bör vara så enkla som möjligt och helst enbart bestå av en förenklad kassaflödesanalys och en balansräkning och kanske även en enkel resultaträkning.

Författarna har också identifierat tre avgörande faktorer för att det nya bolivianska redovisningssystemet skall kunna fungera. Först och främst måste redovisningskunskapen i de bolivianska små och medelstora företagen förbättras genom utbildning eftersom de idag saknar både teknisk och teoretisk kunskap för att kunna redovisa. Ett kontrollorgan är också av stor vikt för att kunna garantera tillförlitligheten i redovisningen. Till sist finns det även ett behov av att förändra de negativa samhällsvärderingarna gällande redovisning för att kunna hindra den enorma informalitet som råder i landet samt den ökända och vidspridda dubbla redovisningen.

Förändringen i det bolivianska redovisningssystemet innebär naturligtvis stora kostnader, men författarna tror att dessa kostnader, på lång sikt, kommer att övervägas av de potentiella fördelarna, varför detta projekt anses vart värt mödan.

Abbreviations

CAINCO	Cámara de Industria, Comercio, Servicios y Turismo de Santa Cruz (Chamber of Industry and Commerce of Santa Cruz)
CEPB	Confederación de Empresarios Privados de Bolivia
CIOEC	Coordinadora de Integración de Organizaciones Económicas Campesinas de Bolivia (Integrating Coordinator for the Rural Economy Organizations of Bolivia)
CNC	Cámara Nacional de Comercio (National Chamber of Commerce)
CT	Consejo Técnico (Technical Council)
EU	European Union
FAR	Swedish organisation for authorised auditors and specialists in accounting
FFP	Fondo Financiero Privado (Private Financial Funds)
GAAP	Generally Accepted Accounting Principles
GDP	Gross Domestic Product
GNI	Gross National Income
IAS	International Accounting Standards
IASB	International Accounting Standards Board
Idepro	Instituto para el desarrollo de la pequeña unidad productiva
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
INE	Instituto Nacional de Estadística (National Institute of Statistics)
LCSHD	Human and Social Development Group
NGO	Non Governmental Organisation
OECA	Organización Económica Campesina (Rural Economy Organisation)
PRSP	Bolivian Poverty Reduction Strategy Paper
PWC	Öhrlings PriceWaterhouseCoopers
RUC	Registro Único de Contribuyentes
SBEF	Superintendencia de Bancos y Entidades Financieras (Superintendence of Banks and Financial Entities)
SIDA	Swedish International Development Cooperation Agency
SIN	Servicio de Impuestos Nacionales (National Tax Authority)
SPVS	Superintendencia de pensiones, valores y seguros (Superintendence of Pensions, Securities and Values)
UD	Utrikesdepartementet (Swedish Ministry for Foreign Affairs)
UMSA	Universidad Mayor de San Andrés
VAT	Value Added Tax

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1 Introduction

The background section in this chapter introduces the reader to the topic of this thesis. Thereafter follow the problem area, the problem discussion and the problem formulation. The problem area explains the context of the topic, which includes a description of Bolivia and its economy, accounting in Bolivia today, and a description of the Swedish International Development Cooperation Agency's (SIDA) project, of which this thesis is a proposed advancement. The problem is then narrowed down in the problem discussion and finally three research questions are specified in the problem formulation. Thereafter, purposes and delimitations are presented, followed by definitions and clarification, and an introduction to the method. After that, the authors' previous knowledge within the area of investigation is described and finally the outlay in the thesis is presented in the disposition.

1.1 Background

Bolivia is the poorest and least developed country in South America (Regeringskansliet, UD, 2002) where 70 per cent of the inhabitants are poor and 34.4 per cent live on less than two US-dollars per day. Of these, 14.4 per cent live in absolute poverty (www.nationmaster.com, 1.), which is a statistical measure defined by the World Bank that implies to live on less than one US-dollar a day (UN, Expert Group of Poverty Statistics, 1999). In Bolivia, the rift between the classes concerning wealth, resources and power is among the largest in Latin America. Two thirds of the inhabitants are indigenous people, many of them living in the countryside, and they represent the lowest social and economic class while white elite run the country.

Bolivia is in great need of support from other countries, and approximately 7.5 per cent of its gross domestic product (GDP)¹ comes from external contributions (Regeringskansliet, UD, 2002). The Swedish International Development Cooperation Agency (SIDA), a government agency that reports to the Swedish Ministry for Foreign Affairs (UD), is one of the organisations that support Bolivia in reducing its poverty through assistance (www.sida.se). In 1992, the Swedish Government signed a specific bilateral agreement with Bolivia, aiming for private sector development. Focus was set on increasing the production in the Bolivian companies and developing the Bolivian capital market in order to help modernise, strengthen and develop its economy (CAINCO, 2003).

In the late 1990's a need for a uniform accounting system in Bolivia was noticed (Svensson, SIDA, Feb. 6, 2004), and in January 2001 SIDA received a request for assistance in the creation of a standardised chart of accounts (CEPB, 2001). Today, SIDA has made plans to contribute to this project, now named Project 205, which involves not only an introduction of a standardised chart of accounts, but in addition, improvements of existing laws, institutions and accounting standards, along with the creation of new ones (CAINCO, 2003). The Bolivian institutions currently involved in the project are the Chamber of Industry and Commerce of Santa Cruz (CAINCO), the Superintendence of Pensions, Securities and Values (SPVS), the National Chamber of Commerce (CNC) and the National Tax Authority (SIN)

¹ GDP is the total value of final goods and services produced within a country's borders in a year (www.wordiq.com, 1.).

(CAINCO, 2003). Since the Bolivian parties have experienced the Swedish accounting system to be successful in Sweden, this will function as role model (CEPB, 2001).

This thesis is a proposed advancement of the so called Project 205, and it is written as a master thesis within the field of accounting at the School of Economics and Commercial Law at Göteborg University. In order to carry out the investigation, the authors have conducted a field study in Bolivia during May and June 2004. The authors focus on small and medium sized companies, and their role in the Bolivian accounting system, since these companies make out the larger part of the economy and are thus very important for Bolivia. The main theme is what *disclosure*, i.e. supply of accounting information, that is reasonable to legally require from Bolivian small and medium sized companies. This has been studied considering the demand for accounting information on behalf of the existent and potential users, which often is disregarded in research. Olson, Falkman and Pauli (1995) do in fact argue for more research regarding the users' needs, since accounting regulations today mostly build on assumptions about the users' needs. Furthermore, the authors have investigated the small and medium sized companies', i.e. the suppliers', prerequisites to account. These two studies together make possible the discussion about disclosure. Since Project 205 on this date has still not started, the authors' aim is that this thesis will be used as one of the sources of information in the improvement of the accounting system in Bolivia, when it comes to issues concerning small and medium sized companies.

The issue concerning the appropriate level of disclosure has been widely discussed in theory, concluding that there are no right answers (Hendriksen and Van Breda, 1992). Therefore, the authors of this thesis do not claim to provide an absolute solution for Bolivia. The thesis will regardless be an important source of information for the representatives of SIDA and Bolivian parties involved in accounting issues. To the authors' knowledge, no previous research has been conducted in a similar manner like in this thesis in which the focus is set on the appropriate level of disclosure for small and medium sized companies' accounting in Bolivia.

1.2 Problem area

In this section, Bolivia is presented from a historic and economic point of view and characteristics of the economy and the accounting are described. Problems that Bolivian companies face concerning accounting is also to be displayed, as well as Project 205 and its potential benefits. Finally, a problem discussion with focus on small and medium sized companies is held, which in turn develops into a problem formulation.

1.2.1 Bolivia and its economy

Bolivia is situated in central South America, bounded by Peru, Brazil, Chile, Paraguay and Argentina, and it is one of two countries in South America that do not have any coastline. Through the west of the country runs the mountain chain, the Andes, where a large part of the inhabitants lives on heights up to 5,000 meters above sea level. The administrative capital, La Paz, is the world's highest situated capital, on 3,600 meters (SIDA, Global Reporting Sweden, 2000). Bolivia also has a formal capital, Sucre, where the declaration of independence was signed and the first constitution was founded, and where the Supreme Court is now located (Casa de la Libertad, June 11, 2004). The city of Santa Cruz constitutes the financial centre (SIDA, Global Reporting Sweden, 2000). Bolivia has a surface of 1,098,151 km² (SIDA, Styrelsen för internationellt samarbete, 2003), approximately double the size of Sweden, and in 2002 it had 8.8 million inhabitants (<http://devdata.worldbank.org>, 1.), consisting of

indigenous people, mestizos and white. There are three official languages, which are Spanish, Quechua and Aymara (SIDA, Global Reporting Sweden, 2000).

In the early sixteenth century, Inca Bolivia was conquered by the Spaniards to become a Spanish colony. The colonists drained the country for silver and shipped it to Spain to finance its economy. In 1825, Bolivia regained its independency but thereafter it took 158 years, filled with political turbulence and military coups, to become a democracy (SIDA, Global Reporting Sweden, 2000). However, Bolivia still has a weak legal system where corruption is common, in both the private and public sectors, at all levels in the society and in all regions of the country (CAINCO, 2003). In a corruption index created by Transparency International, Bolivia is placed on the 106th place of 133 countries, i.e. among the most corrupt countries in the world (Transparency International, 2003).

In the middle of the 1980's, Bolivia's politicians began performing economic and structural reforms (Regeringskansliet, UD, 2002). From then and until 1998 the country had a yearly growth of 4-5 per cent. Thereafter the growth has declined due to that the country has been severely affected by external shocks, as well as by internal problems. The international economic crisis in 1998/99, decreased competitiveness due to devaluations in Brazil, Chile and Argentina, and low commodity prices diminishing their export incomes and possibilities, etc, have pushed Bolivia into a recession that the country still struggles to overcome (SIDA, Department for Latin America, 2003).

In 2001 the Bolivian government constituted "The Bolivian Poverty Reduction Strategy Paper" (PRSP, 2001), assisted by the World Bank. In this paper is stated that one important way for the country to reduce the poverty and the rifts in the society is to achieve economic growth. In order to do so it is necessary to stabilise the economy and develop the economic life. This has however been far from achieved (SIDA, Department for Latin America, 2003).

Bolivia is highly dependent on exportation, currently of natural resources and raw materials, since it has only a modest internal market. The mountainous terrain and the lack of a coastline, together with poor road maintenance, furthermore imply high transportation costs (SIDA, Department for Latin America, 2003). The Bolivian economic life is characterised by small family businesses. The majority of the indigenous people live as small-scale cultivators and the Bolivian formal sector consists of only 4 per cent stock companies (SIDA, Department for Latin America, 2003). Additionally, the larger part of the economy consists of the so called informal sector, which leads to a large loss of potential tax revenues for the state, since informal companies do not pay tax (Ampuero, SIDA, May 4, 2004; Handell, Ekonomitolket, Feb. 6 2004).

The financial market in Bolivia is very ineffective. The total amount of savings is low because of a general mistrust of the financial sector (Nueva Economía, Aug. 2003), and the newly emerged stock market is very small because of a fear for investing (CAINCO, 2003). Between 1986 and 1994, seven banks were liquidated, and in 1995, four out of eleven domestic banks experienced liquidity problems (Beim and Calomiris, 2001). Since 1998, the savings have continued to decrease, which, according to the economic newspaper Nueva Economía (Aug. 2003), is directly correlated to the contraction of the Bolivian economy. In addition, the direct investments decreased from 667 millions in 2002, to 163 millions in 2003, which also is a consequence of the economic contraction, and of a worsened country image (Correo del Sur, June 12, 2004). Moreover, it is difficult for private companies to obtain loans, since credit institutions in many cases do not consider them reliable enough (CAINCO, 2003). The

ineffectiveness in the financial market, moreover leads to an ineffective allocation of resources in the country. However, a recent privatisation in several sectors has created a demand for capital, and standardised accounting procedures, that currently are insufficient and unreliable, are considered one important way to increase the credibility of the private companies (CAINCO, 2003).

1.2.2 Accounting in Bolivia

The Bolivian accounting legal framework is today based on the tax law and regulatory decrees, the Commercial Code and the Bolivian Generally Accepted Accounting Principles (GAAP) and recommendations (CAINCO, 2003). The Association of Auditors develops the Bolivian GAAP while the recommendations come from the Technical Council (CT), which is a sub division to the Association of Auditors (Mendoza, UMSA, May 7, 2004). The institutions responsible for these laws and recommendations are supposed to follow the International Accounting Standards, or the future name, International Financial Reporting Standards (IAS/IFRS) developed by the International Accounting Standards Board (IASB), but with adjustments to country specific needs (CAINCO, 2003). However, Bolivia is not a member of IASB (Riahi-Belkaoui, 2004) and therefore has no possibility to impact the development of these standards.

The Commercial Code requires all Bolivian businesses to keep a journal, general ledger and an inventory book. Books and records must be kept for five years after the liquidation of the company (García, 2003; Código de Comercio, undated). Furthermore, financial statements including a balance sheet, an income statement, a statement of changes in equity, a statement of cash flow and notes, should be filed annually with the Registry of Commerce, together with the auditors' reports and the managers' names (www.worldmarketanalysis.com). Only companies that has an annual turnover of 1,200,001 Bolivianos² or more need an audit of accounts (Barea and Vargas, May 19, 2004; Mendoza, UMSA, May 28, 2004). Furthermore, companies with assets less than 27,000 Bolivianos, are excluded from the accounting regulations and instead have to pay a fixed bimonthly tax based on their amount of assets (www.impuestos.gov.bo). The tax rate on profits for other companies is 25 per cent (www.worldmarketanalysis.com).

Furthermore, most companies, including sole traders and non-profit organisations, public institutions and non governmental organisations (NGOs) are required by the SIN, on a monthly basis, to present a Book of Purchases and Sales in order to pay the accurate amount of Value Added Tax (VAT) (Directorio, June 23, 2004) of 13 per cent (Código de Comercio, undated). According to a recent normative resolution (Directorio, June 23, 2004), a software has been developed for this purpose and is distributed free of charge to those who do not already have access to it.

A large problem described in Project 205 is that it is currently difficult for Bolivian companies to follow the Bolivian accounting regulations. This is due to that the different institutions responsible for the accounting legal framework are badly coordinated and the recommendations are relatively complicated and mostly suited to larger companies (CAINCO, 2003) in sectors such as the bank sector, the newly privatised electricity and telecommunication sectors, and the agricultural sector (Barea and Vargas, May 19, 2004).

² Bolivianos is the Bolivian currency; 1 Bolivian Boliviano (BOB) = 0,99108 Swedish Krona (SEK) in Aug. 5, 2004 (www.oanda.com/convert/classic).

Furthermore, Bolivia has no standardised chart of accounts. Hence, companies develop their own chart of accounts based on the needs of information that they have for the internal management or other purposes (Handell, Ekonomitolkén, Feb. 6, 2004; Törning, PWC, April 5, 2004). If the company is within an international group of companies, it usually applies the standards of the mother company instead of trying to follow the inconsistent Bolivian accounting regulations. Subsequently, the financial information of two competing companies is doomed to be incomparable (CAINCO, 2003).

The tax law is the main legal source for Bolivian accounting regulations (CAINCO, 2003), implying that there is a strong tax connection in the accounting (Antequera, Idepro, June 2, 2004; Barea and Vargas, May 19, 2004; Marca, CIOEC, May 26, 2004). However, in an analysis described in Project 205, inconsistencies were found between the Bolivian GAAP, the tax legislation and their updating procedures. For instance, the SIN may issue new tax legislations without considering the accounting procedures even though these are affected by the changes in the tax legislation. Except for this large gap in the communication between SIN and the CT, the CT has been criticised for acting too passively in developing accounting recommendations and not being successful in spreading the information for practical application in companies (CAINCO, 2003).

The incoherent rules and the lack of a standardised chart of accounts make the financial information presented by the Bolivian companies inconsistent. The inconsistency of the companies' financial information decreases their reliability and transparency and it is difficult for credit institutes to make decisions regarding loans, or for potential stock market actors to evaluate companies. Because of these inconsistencies, it also becomes easier for the companies to manipulate the figures and pay too little tax (CAINCO, 2003). In fact, the largest factor that adds to the lack of reliability of the companies' information is the infamous "double accounting". Most companies keep double books, one for internal needs and one for taxation. The income statement that serves as basis for taxation is reduced to contain only a fraction of the true income, with the purpose to pay as little tax as possible (Borda, Banco Santa Cruz, May 19, 2004; CAINCO, 2003; Fernandez, Banco Unión, May 27, 2004; Jauregui, Banco Mercantil, May 21, 2004; Miranda, Banco Económico, May 18, 2004).

The legal requirements of accounting for small and medium sized companies are the same as for a large company, except for the requirement of an audit of accounts that they are excepted from (Marca, CIOEC, May 26, 2004; Mendoza, UMSA, May 28, 2004). However, there are very few who actually pay attention to if these requirements are followed or not. The annual report is not public, except for the listed companies, and no authority controls that all books are kept and filed, except for in some regulated sectors, such as the bank sector. The companies in these controlled sectors are almost exclusively large companies, and hence, in reality very few of the small and medium sized companies fulfil all legal demands, if any (Barea and Vargas, May 19, 2004; Jauregui, Banco Mercantil, May 21, 2004).

All in all, the task of accounting is difficult in Bolivia, especially for small and medium sized companies, why the use of accounting today is mainly restricted to the large companies. The risks in keeping the accounting system in Bolivia as it is today, apart from the problems with corruption, informality, low access to financial markets, ineffective capital allocation etc, is the further development of different accounting cultures and praxis. This will actually add to the lack of transparency and uniformity in the accounting information among the Bolivian companies. Subsequently, the main purpose of external accounting, which is to provide the users with relevant and reliable accounting information about the company (Kam, 1990;

Smith, 2000), risks to be lost. The International Monetary Fund (IMF) has come to the same conclusion, and has demanded that the Bolivian Government improves its technical and legal measures for supervising laws and rules (CAINCO, 2003).

1.2.3 Project 205 and its potential benefits

Project 205 (CAINCO, 2003) is the answer to the IMF's demand, described in the previous section, and it involves two phases. The first phase, of two years, involves building a legal and institutional framework to enable the implementation of a standardised chart of accounts. The standardised chart of accounts will be voluntary for companies to adopt (Ampuero, SIDA, May 4, 2004; Handell, Ekonomitolken, Feb. 6, 2004). The second phase, of three years, involves the launching of the standardised chart of accounts, along with activities to stimulate the Bolivian community to adopt it. The second phase has still not been planned in detail. Specifically, the first phase involves the following subprojects (CAINCO, 2003):

- Support and strengthening of the accounting system's legal framework
- Creation and strengthening of organisations with competence to develop and implement the standardised chart of accounts, including:
 - Creation of a Bolivian Accounting Standards Board responsible for the Bolivian GAAP
 - Establishment of an institute responsible for the standardised chart of accounts
 - Strengthening of the CT responsible for the recommendations
- Development of a national standardised chart of accounts, including a chart of accounts adjusted to small and medium sized companies
- Support to establish a new market for standardised accounting software, primarily aimed for small and medium sized companies
- Starting of the implementation of the chart of accounts in the Bolivian companies, including:
 - Development of a project proposal and a detailed work plan for the implementation phase of the chart of accounts
 - Development and implementation of an initial communication strategy

As today, the Bolivian GAAP will be based on the IAS/IFRS and influenced by the tax law, but with a system that manages to produce coherent regulations (Törning, PWC, April, 5. 2004). Another idea in Project 205 is to have statistics collected from the accounting by the Bolivian National Institute of Statistics (INE) (Handell, Ekonomitolken, Feb. 6, 2004). It has also been acknowledged in Project 205 that simpler accounting procedures for small and medium sized companies will be needed (CAINCO, 2003).

The main purpose of Project 205 is to enhance the reliability and transparency of the Bolivian companies' accounting information, in order for them to gain access to the emerging capital market in Bolivia, which is expected to improve the capital allocation in the country. A standardised chart of accounts, together with a functioning set of laws and institutions is expected to make the accounting simpler for the Bolivian companies and make the companies' accounting information more transparent and reliable. When investors and lenders can base their decisions on more reliable accounting information, they may lower their interest rates and security margins (CAINCO, 2003).

The parties involved in Project 205 (CAINCO, 2003) also expect a reduction of the informal sector that occupies a great part of the Bolivian market. This can be achieved since companies that now are acting in the informal sector will be encouraged to enter the formal sector due to the facilitation of the accounting. A further incentive to do so will also be the greater possibility of obtaining capital when being able to present reliable financial information. For the Bolivian economy, this would imply an economical gain due to that more funds would be raised through an increased number of companies paying taxes.

Clear accounting rules and procedures may limit the possibilities for undetected corruption and unpaid taxes. Hence, increased transparency and reliability of the companies is also expected to decrease the corruption in the country (CAINCO, 2003).

A country's accounting system is a part of the infrastructure, and as any infrastructural part, it is important for the country's development and well function. The accounting situation in Bolivia is unbearable, why the introduction of a standardised chart of accounts and the improvement of the accounting system would probably benefit the country in many ways.

1.2.4 Problem discussion

Olson, Falkman and Pauli (1995) include in accounting; *the operative accounting system, the normative system and the user system*, three parts that are connected to each other and is summarised in figure 1:

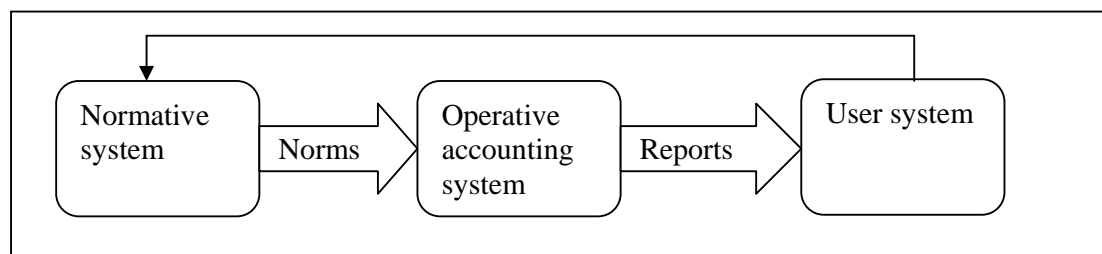


Figure 1: The accounting system (Olson, Falkman and Pauli, 1995)

The objective of accounting is to provide relevant and reliable financial information about the company or organisation to the user system, which includes the actual and potential users of the accounting information (Hendriksen and Van Breda, 1992; Kam, 1990; Smith, 2000). The normative system provides accounting standards to guide the operative accounting system, i.e. the producers of the accounting information within the companies (Olson, Falkman and Pauli, 1995).

The normative system includes the accounting standards. These standards consist of laws or general principles that define the absolute limits of accounting, and recommendations that complement the laws or principles since they more explicitly describe for example issues concerning bookkeeping, valuation and reporting. The standards are important for the harmonisation of the accounting within a country and for promoting a certain level of quality of the reports. These standards consequently facilitate for the users to understand and interpret the disclosed accounting information. The normative system furthermore includes the control system that makes sure that the accounting standards are being followed, and the principle actor responsible for this are the auditors (Olson, Falkman and Pauli, 1995).

The task for the operative accounting system is to measure, value, register and report business transactions. In other words, operative accounting takes place within the company or organisation that produces the accounting reports (Olson, Falkman and Pauli, 1995).

The user system is where the produced accounting reports are being used as sources of information for those who are interested in estimating and evaluating the future of the company (Olson, Falkman and Pauli, 1995). The accounting information presented has to be reliable and relevant for the different users, which all demand different sorts of information, depending on the purpose for why they demand it. However, there are limits to how much information a company can provide. In addition, not all current and potential users of the accounting information are considered equally important (Marton, Göteborg University, notes, 2004; Smith, 2000).

Today Bolivian companies, and in particular the small and medium sized ones, do not provide relevant and reliable financial information to the actual and potential users of it. Bolivia furthermore lacks a well-working normative system that can guide the producers of the accounting information in a good way.

Today, in most large Bolivian companies, accounting information, with all its shortcomings, is produced and used, and these companies will probably benefit from Project 205, with a standardised chart of accounts and uniform accounting standards. However, to be able to develop an accounting system that will benefit also the Bolivian small and medium sized companies and their users, the question of *what would be an appropriate level of disclosure of accounting information* for these companies, needs to be considered.

Small and medium sized companies tend to have fewer resources, such as less knowledge, less time and less money, in comparison to larger companies. Therefore, the administrative burden of regulations, such as accounting regulations, becomes relatively heavier and relatively costlier for small and medium sized companies, and it is therefore important to consider the effects of the regulations (Regeringskansliet, ND, undated). Furthermore, the benefits of accounting are generally fewer for small and medium sized companies since they normally have fewer stakeholders. If the company is also unlisted, as most companies in Bolivia are, it has for instance no public shareholders that request accounting information (Smith, 2000).

Today, Bolivian small and medium sized companies have to apply the same accounting principles as a large company, without any simplifying recommendations. Often, in other countries, recommendations help simplify the accounting for small and medium sized companies and may exempt them from certain legal requirements. A risk analysis of Project 205 performed by PriceWaterhouseCoopers (PWC, 2002), indicates that small and medium sized companies in Bolivia might consider the accounting to be additional administrative work in spite of the improvements. They may therefore continue to orient towards informality, which in fact, may actually increase the informal sector. Hence, small and medium sized companies in Bolivia may require less demanding accounting regulations, in addition to the standardised chart of accounts adapted to their needs.

However, as pointed out by Olson, Falkman and Pauli (1995) the regulation regarding accounting information should be decided based on the users' demand for accounting information, since the usefulness of accounting information always have to be considered in relation to its users. Hendriksen and Van Breda (1992) list three major questions that need

answering when deciding for what is an appropriate level of disclosure of accounting information. These questions, following, aim at finding out *what demand the users have for accounting information*, and will need to be considered in this thesis, regarding small and medium sized companies.

1. For *whom* is the information to be disclosed?
2. What is the *purpose* of the information?
3. How *much* information should be disclosed?

In the case of a developing country, such as Bolivia, it is however possible that the demand for accounting information is greater than the current abilities of the small and medium sized companies to produce this information, which is important to consider before a potential change in the disclosure regulations. Subsequently, to establish an appropriate level of disclosure it is important to find out *the prerequisites to account on behalf of the Bolivian small and medium sized companies*.

Providing information costs money for the companies, and changing the accounting system implies a cost for the government, which may be difficult for a country with low tax incomes, such as Bolivia. The goal of imposing accounting rules in a country is that the total benefits should exceed the total costs to be worthwhile (Marton, Göteborg University, notes, 2004; Smith, 2000). Therefore, the costs of accounting need to be weighted against the benefits, when considering a change in the accounting regulations.

Moreover, with reference to Gray (1988), Roberts, Weetman and Gordon (1998) emphasises the societal influences' impact over accounting, and the culture is especially important. When trying to make a change in a society it is therefore important to consider what societal influences that may help or prevent the success of the change.

1.2.5 Problem formulation

Based on the problem discussion above the authors state the three following research questions, where question one deals with the user system in the accounting system, and question two with the operative accounting system. Together these two questions lead to the main question, number three, which deals with the normative system:

1. *What accounting information do the most important external users demand from Bolivian small and medium sized companies?*
2. *What are the prerequisites for the Bolivian small and medium sized companies for presenting the accounting information demanded by the external users?*
3. *What is an appropriate level of mandatory disclosure of accounting information for small and medium sized companies in Bolivia?*

1.3 Purposes

The main purpose of this thesis is to discuss what level of mandatory disclosure of accounting information that is reasonable to require from Bolivian small and medium sized companies. In order to do so, another purpose is to investigate and describe what demand the most important external users in Bolivia have on small and medium sized companies' accounting information.

A further purpose is to investigate and describe what prerequisites Bolivian small and medium sized companies have to produce accounting information. Furthermore, the authors intend to recommend possible measures on part of the government for a potential change of the disclosure regulations to succeed.

1.4 Introduction to method

The most important external users in research question one has been selected in the method chapter, mainly through theory and information from the proposal of Project 205. What accounting information these users demand, has been assessed through an empiric study. Regarding question two, the factors that determine the prerequisites to account has been selected through theory, in the method chapter. These factors have then been studied through a second empiric study. The third question is the outcome of an analysis of the two empiric studies, with help of theory. The method of investigation has mainly been qualitative, and primary as well as secondary sources of information have been used.

1.5 Delimitations

Accounting in a company involves both the daily bookkeeping and periodic compilation of accounting information, which can be disclosed in different reports, and used for different purposes. This thesis excludes the daily bookkeeping. Therefore, the aim with this thesis is not to develop a standardised chart of accounts adapted to small and medium sized companies, since this tool is mainly intended to facilitate the daily bookkeeping.

Accounting regulations include both rules for disclosure and rules for measurement. Disclosure rules decide *what* information the company has to present in their reports, while measurement rules decide *how* to measure, calculate and value this information. In this thesis, measurement rules are not considered. The authors' aim with this thesis is furthermore not to give detailed information regarding laws and regulations.

Accounting can be divided into internal and external accounting. The purpose of internal accounting, which is not regulated by law, is to facilitate the management's planning and control of the company (Dahlin, Jönsson and Lundén, 2000) while external accounting provides financial information about the company mainly to the external users (Smith, 2000). The internal users of accounting information will be excluded in this thesis. The reason is that smaller companies do not tend to use accounting in order to fulfil their needs of financial information for management purposes and especially not in Bolivia where accounting is barely conducted at all in small and medium sized companies. Ultimately, further delimitations will be made and described later on in the method chapter.

1.6 Definitions and clarifications

Listed and unlisted companies

Since Bolivia still has very few listed companies, it would not be meaningful at this point to distinguish between listed and unlisted companies in this thesis, when referring to differences in accounting regulations. Moreover, in a country like Bolivia, with a general fear for investing, simplifications in the accounting regulations for unlisted companies, without considering their size, could impede potential stock market companies from listing. Therefore, it is more important to distinguish between companies of different sizes.

Large, medium sized, small and micro businesses

The definitions for Bolivian companies of different sizes vary in different organisations, and the most common way to make distinctions between companies is between formal and informal businesses (Handell, Ekonomitolkén, Feb. 6, 2004; Törning, PWC, April 5, 2004). In Bolivian accounting legislation, there exists no formal definition of what is a micro, small, medium sized or large company. However, the accounting legislation has adopted two classifications from the tax legislation. The tax legislation defines companies with an annual turnover of 1,200,001 Bolivianos or more as large contributors, and this is also the limit for the mandatory audit of accounts. These companies can be considered as large companies although this is not the formal definition. The tax legislation furthermore allows companies with assets worth less than 27,000 Bolivianos to enter a simplified tax regime (Barea and Vargas, May 19, 2004; Mendoza, UMSA, May 7, 2004). These companies, which the authors have chosen to call micro businesses, do not have to follow accounting legislation at all. However, a situation where the distinction is set with two variables of different kind is not sustainable and will have to be set properly if accounting regulations are to be based on this.

In 2001, the Vice Ministry of Micro Businesses, have established a classification of companies of different sizes, which is according to number of employees, annual turnover, and productive assets. In accordance to employees, the classifications are 1-10 for a micro business, 11-20 is a small company, 21-49 a medium sized company and 50 or more a large company. However, far from everyone uses it. For instance, INE uses the traditional official ranges, which categorises companies according to number of employees where 1-4 employees is a micro business, 5-14 a small company, 15-49 a medium sized and 50 or more a large company (Antequera, Idepro, June 2, 2004; Antequera, undated).

Later, during the authors' interviews, it turned out that all interviewees have different definitions of companies of different sizes, and their answers concerning companies of different sizes are based on their parameters since the authors have chosen not to set any limits. Subsequently, there are no classifications of companies of different sizes in this thesis. However, even though the different classifications according to the interviewees were based on turnover, employees and capital, or with one of these factors or two in different combinations, there were no extreme differences between their classifications. For instance, none of the interviewees considers those companies that need the audit of accounts to be small and medium sized companies. Because of this difficulty to find one definition, small and medium sized companies have mostly been considered as one group, micro businesses another and large companies a third group during the work with this thesis.

1.7 The authors previous knowledge

The authors of this thesis have knowledge about accounting on an intermediate level. Basic knowledge has been acquired during the first years of the education. A deeper knowledge was acquired during this spring semester 2004, which involved accounting theory and international accounting.

Even though the authors have specialised in business administration, the education at the School of Economics and Commercial Law at Göteborg University is unique in that it during the first two years integrates several different fields such as economics, business administration, statistics, law and language studies. This has been useful when working with

the thesis since both an understanding of the Bolivian economy as well as more technical accounting knowledge was necessary. Furthermore, the authors have spent one year in Spain during the education, which has not only improved their Spanish, but also enriched the authors' perspectives, thing that may have improved the analysis of this thesis.

The authors have a profound interest in development and societal issues. Before the journey to Bolivia the authors attended a preparatory course in how to conduct a minor field study in a developing country (MFS), at Peace and Development Research at Göteborg University (PADRIGU), in the regime of SIDA. Both authors also have previous experience from travelling in developing countries in Latin America, Asia and Africa.

1.8 Disposition

This chapter has introduced the topic of this thesis in a description of the problem and its context. Moreover, delimitations, definitions, an introduction to the method and the authors' previous knowledge within the area of investigation have been presented.

In chapter two, the theoretical framework is described. This includes theory regarding financial disclosure, the benefits and costs of accounting, the users of external accounting, traditional development factors that influence the development of accounting systems, and accounting standard setting in developing countries.

Chapter three describes the method used in the thesis, i.e. procedures and investigation techniques for resolving the research problems and fulfilling the purposes. The method chapter furthermore presents the selection of external users to investigate in research question one, and the selection of specific factors to investigate in research question two. Last, the work with the thesis is evaluated.

Chapter four and five present the results from the empiric studies regarding research questions one, respectively two. In chapter six, result and analysis, the empiric studies are complied in order to answer research question three. Last in chapter six, possible measures and advice in order for the government to obtain a successful potential new accounting system are recommended.

Finally, chapter seven concludes the research, and ideas for further studies are presented. After the reference list, the interested reader can find all interview guides in appendices. A word list in English-Swedish-Spanish is also to be found in appendix.

2 Theoretical Framework

The theory chosen is used in different ways in the thesis; to introduce the reader to relevant accounting theory to the thesis, to help the authors select areas of investigation and to provide a basis for the analysis. The chapter begins with theory about “financial disclosure”, the main theme in this thesis, which is followed by the “benefits and costs of accounting”, which are viewed as the overarching limits of accounting. Thereafter, a description of “the users of external accounting”, used for research question one, is presented. Then follows the “traditional development factors that affect accounting systems”, which describes the interaction of accounting with its surroundings, and which are used to select the factors in research question two. Last, “accounting standard setting in developing countries” presents four common strategies that these countries tend to apply.

2.1 Financial disclosure

Disclosure in the broadest sense of the word means release of information. In accounting, disclosure means a company’s release of financial information within a financial report, generally the annual report. Some accountants however restrict the term to information other than that in the traditional financial statements, i.e. the balance sheet, the income statement and the cash flow statement. According to some, disclosure can also include financial information about the company released by other sources (Hendriksen and Van Breda, 1992). In this thesis, disclosure is defined as all financial information released by the company in a financial report, i.e. all accounting information including both quantitative and qualitative information. The topic of regulating disclosure of accounting information has been extensively debated for a long time and there is a continuous research regarding the issue. If it should be regulated at all, who should regulate it and to what extent it should be regulated are questions that all have different solutions in different countries (Hendriksen and Van Breda, 1992; Riahi-Belkaoui, 2004; Roberts, Weetman and Gordon, 1998).

2.1.1 Different types of financial disclosure

There is a distinction between mandatory and voluntary disclosure. Mandatory disclosure means the accounting information that the accounting standards obligatorily require the company to produce. The mandatory disclosure tends to differ between countries and can differ for different sectors or types of companies within a country. Voluntary disclosure is accounting information that the company itself chooses to disclose for different reasons (Dahlin, Jönsson and Lundén, 2000; Roberts, Weetman and Gordon, 1998). The main purpose in this thesis, to discuss the appropriate level of disclosure for small and medium sized Bolivian companies, refers to the mandatory disclosure.

Some reports that normally are mandatory are the balance sheet, the income statement and the cash flow statement since these are considered most important in the annual report (Dahlin, Jönsson and Lundén, 2000). In addition, the statement of changes in equity, which specifies what has made the equity change during the year, is sometimes considered one of the traditional financial statements (Alexander and Archer, 2000). The balance sheet shows the total capital, i.e. the assets, liabilities and equity, on the closing date. The income statement shows the company’s incomes, costs and the result during the accounting year. The cash flow statement shows how the operation has been financed and how the capital has been used

during the accounting year (Dahlin, Jönsson and Lundén, 2000). Traditionally the result was considered most important for evaluating a company. However, internationally there has been a shift towards stronger focus on the cash flow statement, since this shows the real money flows from transactions in the company, while the result may be affected by pure accounting effects. There can actually be a profit in the company also with negative flows, implying that even though the company seem to be doing well it can be experiencing problems with its physical payments. Therefore, Olson, Falkman and Pauli (1995) suggest that the cash-flow statement should take place in the annual statement as the most important and firstly presented financial statement.

Several reports, such as notes, additional information, the administrative report and the auditor's report can be either mandatory or voluntary depending on country and type of company. The notes or the additional information is important information that is disclosed either in notes or directly in the balance sheet, income and cash flow statements, and show for instance accounting policies, inventory methods or alternative measures. The administrative report is a text that complements other mandatory information in the annual report. The auditor's report is a statement from the auditor that assures that the obligatory information in the annual report has been audited and approved.

Other parts of the annual report can include the management's discussion, business ratios, prognosis, branch analysis, risk analysis, economic statistics, information about employees, environmental information, etc. This information is normally voluntary and used to different extents in different countries and by different types of companies (Dahlin, Jönsson and Lundén, 2000).

2.1.2 Qualitative characteristics of accounting information

External accounting aims at providing useful financial information to those who are interested in it for the purpose of decision-making and control in issues regarding the company. The users however, are expected to have a reasonable understanding of business and economic activities. For the accounting information to be useful, the regulators use qualitative characteristics that will be described below (Hendriksen and Van Breda, 1992).

According to Kam (1990), useful accounting information has to be *relevant* and *reliable*. It is relevant if the accounting information makes a difference for a user when making a decision and it is reliable if it represents what it claims to represent. Therefore, it should be *neutral*, *transparent* and *verifiable* (Kam, 1990; Smith, 2000). The relevance and reliability are, however, somewhat in an opposed situation implying that more of one means less of the other. If maximum reliability would be achieved, as much information as possible should be disclosed. This would however, take too much time and the information would therefore lose some of its relevance. On the other hand, when relevant information is selected, some information is not used, for why the reliability may decrease. In addition, it is necessary that the accounting information is *comparable* over time and with other companies in order to be useful (Mathews and Perera, 1996; Smith, 2000).

Thus, the regulators should ensure that useful accounting information is part of the mandatory disclosure when trying to decide the appropriate level of disclosure. However, opinions go separate ways about the regulation of disclosure, which will be discussed in next section.

2.1.3 Arguments for and against regulating disclosure

According to Hendriksen and Van Breda (1992) "in an ideal world, the appropriate level of disclosure would be based on the increase in social welfare that any additional disclosure would produce". Therefore, some argue that accounting should not be regulated at all, and this theory is referred to as *the free market approach*. According to this theory, accounting information can be viewed as any other good or service and therefore the market forces will regulate the supply of accounting information, i.e. the demand and the right price determine the supply. Firms would have incentives to voluntarily report to the interested users. For instance, a failure to report to the capital market could be interpreted as bad news (Hendriksen and Van Breda, 1992; Riahi-Belkaoui, 2004).

However, the classic argument for those opposing to the free market approach is the argument of *market failure*. Followers of that theory states that the producers of accounting information would fail to supply the optimal amount of information with the optimal quality. Accounting information is viewed as a public good and due to the inability to exclude non-purchaser (free riders) the cost for producing the information will exceed the price. Hence, the social optimum of disclosure of accounting information will not be generated since the producers will only produce to the price that is offered. One of the other reasons that speak for the market failure argument is the monopoly control the management of the company has over the information. Accountants possess a monopolistic influence over the information provided, which complicates for the users to distinguish between real and accounting effects (Hendriksen and Van Breda, 1992; Riahi-Belkaoui, 2004).

Regulation of accounting implies a standardisation of the information, to a more or less extent. Regulation is an effective method for comparability and credibility since a standard simplifies the overview and understanding because there will be fewer alternatives to choose from. For instance, if one company knows that the other is following the regulations, their interactions with each other become faster and smoother (Brunsson and Jacobsson, 1998). Comparability of the disclosed accounting information between firms and between time periods is often argued as necessary to facilitate the predictions and financial decisions made by lenders, investors and other users (Hendriksen and Van Breda, 1992).

On the other hand, critics of regulation argue that even if market failure exists, government regulation has proved ineffective (Brunsson and Jacobsson, 1998; Hendriksen and Van Breda, 1992; Riahi-Belkaoui, 2004). In addition, they argue that if the aim for the users is to make sound financial decisions, the provision of all relevant information should be more valuable than standardised information since the individual companies should be treated on their respective merits (Hendriksen and Van Breda, 1992).

Regulations, implying standards, is furthermore motivated as an effective instrument for transferring of information. The collection of information becomes both easier and cheaper since the standard, if being followed, assures a certain level of content and quality of the information (Brunsson and Jacobsson, 1998). Without it the users themselves would have to collect, compile and interpret the accounting information, which would be expensive, time consuming and uncertain (Olson, Falkman and Pauli, 1995). Nevertheless, it is not merely a question of whether to regulate or not, since there are different levels of disclosure to choose from if one decides to regulate.

2.1.4 Levels of disclosure

There are several levels of disclosure, and three concepts of disclosure that generally are proposed are *adequate*, *fair* and *full disclosure*, where adequate is the most commonly used expression. Adequate disclosure implies that a minimum amount of accounting information is disclosed to avoid that the financial statements are misleading. Fair disclosure implies equal treatment for all potential readers through an ethical objective of providing enough information for all users. Full disclosure implies the presentation of all relevant information. However, some mean that full disclosure is inappropriate since it implies superfluous information. Too much information makes the financial reports difficult to interpret since unimportant details hide important information (Hendriksen and Van Breda, 1992).

Smaller companies often argue for *differential disclosure*, i.e. that the accounting information required by regulation is less demanding than for other companies, because they consider ordinary disclosure rules too demanding for their level of resources (Hendriksen and Van Breda, 1992). Furthermore, the disclosed information gives them very little in return since they do not have much use for it, for neither internal nor external purposes (Bergström and Lumsden, 1993). Therefore, many countries, especially in Europe, provide differential disclosure regulations for smaller companies. For instance, in Sweden smaller companies are excused from having to produce a cash flow statement (FAR, 2004). More and more European countries are beginning to use IASB standards and since there are many small companies in Europe, the European Union (EU) has made a request to the IASB to produce differential accounting standards for small companies. Whether this will happen or not, has still not been decided (Marton, Göteborg University, notes, 2004).

However, while Europe differentiate disclosure regulation for smaller companies the US does not offer differential disclosure regulation, but instead they provide the option for unlisted companies to decide themselves if they want to produce external accounting information or not. In the case when they choose to do it, they have to follow the same accounting regulations as a listed company (Marton, Göteborg University, April 7, 2004).

All in all, the appropriate level of disclosure should be determined by the information that is needed in order for the users to make sound decisions. Yet, at the same time, one has to keep in mind the so called overarching limit, i.e. that the benefits of accounting should exceed the costs.

2.2 The benefits and costs of accounting

A golden rule in economics is that the benefits of producing or undertaking something shall exceed the costs for the action taken (Case et al, 1999), and accounting is no exception (Smith, 2000). However, it is not always certain that the same entity that takes the cost will have all the benefits. A good example is environmental precautions engaged by a company, many times because they are obligated by law, or driven by stakeholder interests. The benefits in this case are shared between the company, the nature and the future generations and so on. The same goes for production of accounting information where the benefits are found both on a macro (the economy) and on a micro level (the company and the users of accounting information). The goal of imposing accounting rules in a country is that the total benefit should exceed the total cost, even if some individual companies may pay relatively more than others, due to the standardised regulations (Marton, Göteborg University, notes, 2004; Smith, 2000). In order for the accounting to be worthwhile, it must be estimated on a judgement of the worth of the collected benefits in relation to the costs (Carsberg and Page, 1984).

2.2.1 The benefits and costs of accounting on a macro level

The benefits on the macro level imply the benefits for the economy, i.e. the country. A functioning accounting system helps provide standardised and transparent accounting information that will help investors and creditors make decisions about investments and loans. It diminishes the risk of bad capital placements; moreover, it diminishes the risk of that there will be no capital placements at all because of a fear of losing the invested or lent money. Thus, a more effective resource allocation can be achieved since the possibilities are greater that money end up where they have chances to multiply. Thereby, the economy of the country will improve through increased employment and more tax incomes. The stream of money will also be more effective between actors in the economy namely the companies and other stakeholders, for instance suppliers and consumers will be more likely to close long-term deals with a company they rely on (Marton, Göteborg University, notes, 2004).

Another important benefit for the economy is if the annual report functions as a base for the taxable income. However, the individual company does in general not experience this benefit positively, since both the tax and the production of the basis for the taxable income is a cost, and this is consequently one of the strongest arguments for regulation. However, for the economy it is positive if the tax is being paid on fair grounds, i.e. that the state can obtain justified tax incomes from those who are able to pay. This benefit is naturally greater if the connection between the tax law and the accounting is strong, which implies that the income presented in the income statement is the one on which the tax authorities base the tax (Marton, Göteborg University, notes, 2004).

When accounting information is being produced, the costs are taken mainly by the companies since they are the producers of the accounting information. However, costs are also taken on a macro level, for instance the cost of maintaining and updating the regulatory framework and for having a control system. The more advanced is the system, the more expensive it becomes. However, benefits from for example an effective control system may justify these higher costs (Marton, Göteborg University, April 7, 2004).

2.2.2 The benefits and costs of accounting on a micro level

As mentioned earlier, accounting information is intended for the users. Hence, the greater is the demand for accounting information from the different users, the greater is the benefit of the produced information.

In addition, the producer of the accounting information experiences benefits since the information enables a supply of external capital that would perhaps be impossible to achieve without displaying relevant and reliable financial facts about the company. By disclosing much relevant information, mandatory and voluntary, also the cost of capital will decrease if the investors and creditors experience a lower risk through this. However, there are limits for how much information the users can take in and therefore it is not always a positive correlation between the amount of information presented and the companies' benefits. There is in addition another risk in disclosing too much information, since the competitors may then take advantage of this information and gain competitiveness (Marton, Göteborg University, notes, 2004).

The costs of producing and publishing accounting information are borne by the individual companies. Carsberg and Page (1984) distinguish between *continuing costs of operating the system* and *non-recurring set-up costs*. Non-recurring set-up costs are cost such as

implementation of new accounting procedures in a company or a new computer program. Continuing costs include for instance salaries to the employees of the accounting department and production of the annual reports.

Another way to divide the costs is into *direct costs* and *indirect costs* (Marton, Göteborg University, notes, 2004) that can be both continuing and non-recurring. Direct costs are costs that are identifiable and verifiable for the company such as salaries to accountants, data systems for accounting and education. Indirect costs can be more difficult to identify and include worsened competitiveness due to that competitors may use the published accounting information to its advantage.

2.3 The users of external accounting

According to Smith (2000), the purpose of external accounting is to provide information concerning the financial situation of a company to those who may be interested; hence, accounting shall be suited for its users. However, there are several different users, all with different needs and requirements regarding the information presented by the company depending on the purpose for why it is used, which makes the task of accounting problematic. Smith (2000) names seven different user of accounting: owners, lenders, suppliers, customers, competitors, employees and the state or municipality. These are described below.

2.3.1 Owners

The owners of the company use the external accounting information for two purposes; firstly to evaluate the management in order to grant freedom of responsibility and secondly to make decisions regarding investments in the company's shares. The first purpose is only of interest if the owners and the management are two separated units, i.e. if the company is of larger proportion. The second purpose obviously requires that the company is a public limited company, i.e. its shares are traded on the stock market. Thus, in order for the owner to be an external user of accounting he or she has to be separated from the management and thus, the company normally has to be of a larger proportion (Smith, 2000).

2.3.2 Lenders

The lenders, together with the investors, are normally viewed as the most important users (Olson, Falkman and Pauli, 1995; Hendriksen and Van Breda, 1992; Smith, 2000; Svensson, 2003). Lender is a rather broad expression that needs further specification, and Bergström and Lennander (2001) have identified five different types of lenders:

- banks
- investment institutes (e.g. pension funds)
- credit market companies (a company that has been authorised by the Finance Superintendence to run financing operations)
- state funds
- others (e.g. private credit grantors)

The lenders use accounting information for assessment of creditworthiness. Assessment of creditworthiness includes a prediction of the companies' future income and cash flow, i.e. the ability to repay loans with interest, along with a judgement of the collateral value of its assets,

to secure repayment in case of financial distress (Svensson, 2003). For this evaluation, the lender examines the liquidity, solvency and profitability of the company that is derived from the balance sheet, the income statement and the cash flow statement (Broomé, Elmér and Nylén, 1995; Smith, 2000).

In a doctoral thesis, Svensson (2003) investigates the actual use of accounting information for assessing the creditworthiness of small and medium sized companies in Sweden. According to the author, a study of this kind can help standard setters and producers of accounting information to reduce the gap between accounting information that is useful in theory and useful in practice, since accounting information to the lenders should be sufficient also for other users.

2.3.3 Suppliers and customers

These users do also evaluate the credit risk of the company, as do the lenders. This may occur due to that suppliers "lend" money if they deliver the merchandise before payments are made and regarding customers if they pay in advance. The reason can also be that these users have a long term and close relationship with the company for why it is important to investigate if the company can fulfil its undertakings (Smith, 2000).

2.3.4 Competitors

Competitors can use the financial information from the accounting in order to compare their own companies with the competitor, i.e. so called "benchmarking" and as basis for decisions regarding corporate activities. This use, however, is normally not experienced positively by the company disclosing the information (Smith, 2000).

2.3.5 Employees

Employees and the trade unions, as representatives for the employees, are interested in the corporate economy for safety reasons. If the company in which they work predict increasing profits, they can consider their employment as secure and if the employer is expecting big losses, they may want to start searching for other jobs (Smith, 2000).

2.3.6 State or municipality

One of the most important purposes of accounting information is as basis for taxation, i.e. that the company pays an accurate amount of tax in relation to its profits. However, the recent development internationally goes towards a liberalisation between accounting and taxation. The state does also utilise the accounting as basis for statistics regarding corporate activities on a national level (Smith, 2000).

2.4 Traditional factors that influence the development of accounting systems

According to Björkdahl and Gäfvert (2002), the accounting in terms of principles, laws and practices is different among countries, due to that accounting is a complex interaction of several factors. It is very unlikely that these factors and the interaction between them are alike in different countries. Hence, the environment in which the accounting system is operating

affects the accounting, and not two accounting systems are exactly alike. Many reasons have been given to explain why accounting systems vary so much. Björkdahl and Gäfvert (2002) and Roberts, Weetman and Gordon (1998) refers to Gray who in 1988 summarised the factors that impact accounting in the following model, that here has been somewhat modified to better suit the definitions in this thesis:

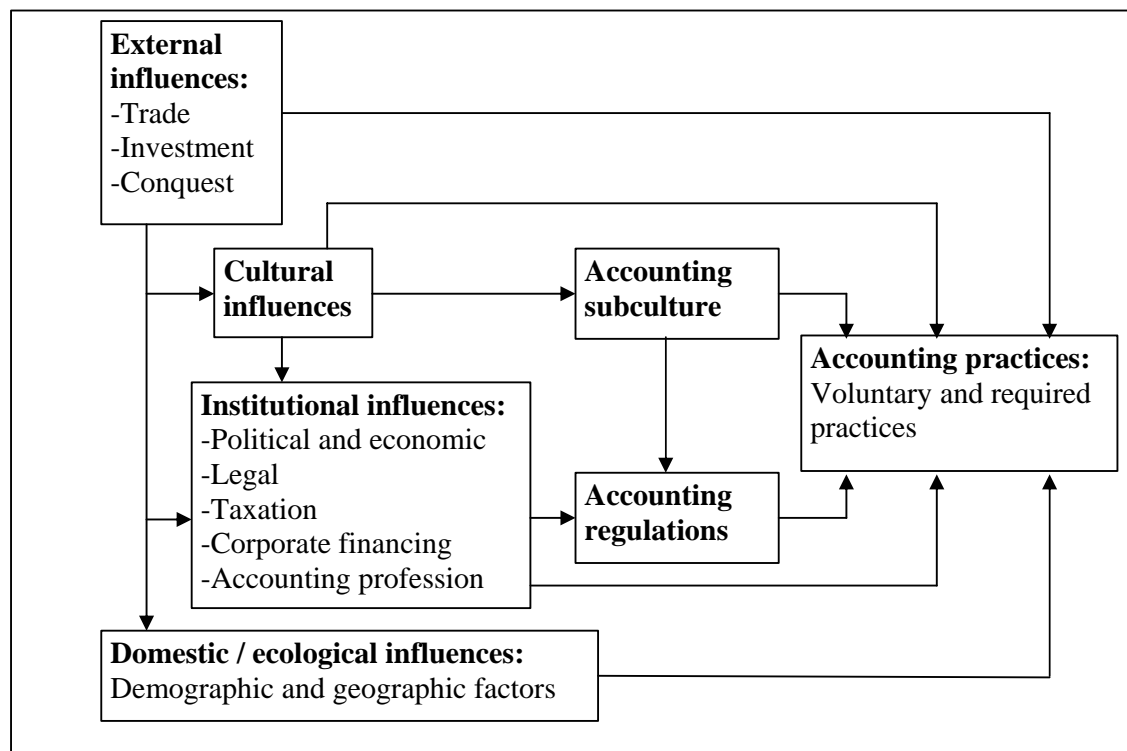


Figure 2: The influences on an accounting system (by Gray (1988) in Roberts, Weetman and Gordon, 1998).

The factors that influence the accounting system include domestic / ecological, institutional, external and cultural influences. All these factor help explain the objectives of accounting in a country, and the mode and strictness of its accounting regulations, including both measurement and disclosure rules. In addition, the voluntary accounting practices, that are not the result of regulations, can be explained by these factors (Roberts, Weetman and Gordon, 1998).

2.4.1 Institutional influences

Institutional influences are related to the country in question. In most developed western countries, the institutional factors are considered most important, in particular the organisation of the political and economic, legal, financial and professional systems (Roberts, Weetman and Gordon, 1998).

The political and economic system

The political system of a country is one of the most important determinants of accounting policy, since the political system is reflected in how the economy is organised and controlled. For instance, accounting has a different purpose in a communist society from a country with a market economy (Roberts, Weetman and Gordon, 1998). The level of economic development, which affects for instance urbanisation and the technological level, affects the types of

business transactions that are common in a country and these transactions determine the topical accounting issues that are important in that specific country. Other factors that influence accounting are what types of industries that exist in the country and the degree of stately intervention in the trade and industry. Other influents can be economic crisis and other temporary incidents as well as the level of inflation. In addition, the educational system, which is determined by the political system and the level of economic development, is important since it can influence level of knowledge and competence among the users and producers of financial information (Björkdahl and Gäfvert, 2002).

The legal system

Accounting systems are influenced by the legal system in a country. In liberal-democratic countries there exist two types of legal systems, the "cod law legal system" found in continental Europe, Latin America and to a large extent in Asia, and the "common law legal system" found in England, the US and the British Commonwealth. The philosophy behind the cod law system is to use the laws to describe and mandate accepted behaviour, and "commercial codes" tend to regulate behaviour, including that of accounting. Accounting regulations tend to be one part of a complete system of commercial regulations that apply to all business organisations. Emphasis is placed on the protection of outsiders, in particular the lender that is often considered the most important user of financial statements. The philosophy of common law is to prohibit undesirable behaviour. Accounting regulation in common law countries tend to be concerned mainly with the disclosure of information for the shareholders, i.e. the owners. Judges develop much of the law during the resolution of specific disputes. The stately law that exist is often less detailed and more flexible than in cod law countries (Roberts, Weetman and Gordon, 1998).

The taxation system

The influence of tax rules over accounting is in some countries important, while it in others has little or no influence. Cod law countries usually have common tax and financial reporting regulations, while common law countries tend to keep them separated (Roberts, Weetman and Gordon, 1998). When the tax law and the accounting legislation are separated, it is to enhance the relevance of the accounting information, since then two different financial reports are produced. One report, with the purpose of calculating the taxable income, where the tax rules may allow reductions to the taxable income, such as a faster depreciation of the productive assets than the real depreciation time, to encourage companies to invest. Hence, the official financial statement is not affected by the taxable interference, and can show a calculated profit more accurate to the reality (Halvorsen, Göteborg University, notes, 2004; Marton, Göteborg University, notes, 2004). When there is a strong tax connection in the accounting only one financial report needs to be produced, which implies a lower cost for the company and a greater benefit for the tax authorities of accounting, as mentioned earlier. It can be either the tax rules that are used for financial reporting, or the financial reporting rules that are used by the tax authorities (Roberts, Weetman and Gordon, 1998).

The corporate financing system

The sources of financing a company may take many different forms, both of equity and debt. How companies tend to finance their activities is an important determinant for the accounting system in a country. If equity finance is more important than debt finance, the investors/owners are more likely to be considered as the most important users, and accounting regulation will be based on this. If debt finance is more common, the accounting system will be designed more to protect the lenders (Roberts, Weetman and Gordon, 1998).

The accounting profession

The size, role, organisation and importance of the accounting profession are further important influences on a country's accounting system, which in turn is a result from the other factors. For instance, who audits and how many audits are conducted depends on the types and number of companies. The society's attitudes towards accountants and auditors also affect the auditors' ability to influence the accounting system. Whether the auditors are seen as independent or under the control of the companies they audit will affect the perceived value of financial statements. The accounting profession may be the ones setting the accounting standards, thing that is more widespread in common law countries where the government tend to delegate the regulation of accounting to an independent body. However, also in cod law countries the profession often plays a role, with the issue of standards or recommendations in areas where there are no legal regulations (Roberts, Weetman and Gordon, 1998).

2.4.2 Domestic / ecological influences

Domestic / ecological influences are also related to the country in question. For instance, geography and language may have influences on the accounting mostly through their influence over the institutional factors (Björkdahl and Gäfvert, 2002).

2.4.3 External influences

There are varieties of other factors that can affect the accounting system. Particularly important are external influences, such as degree of foreign investments, trade patterns, colonial history and the importing of accounting rules or practices from other countries (Roberts, Weetman and Gordon, 1998).

2.4.4 Cultural influences

The societal culture, i.e. the values in a society, influence the accounting values, by Gray named the accounting subculture, which in its turn has an important influence over all parts of the accounting system (Björkdahl and Gäfvert, 2002). The societal values are also influenced by the other factors and they have a strong influence over other factors, which make culture very important. Cultural values hence have the power to impact changes in both positive and negative ways and are therefore extra important to consider when trying to make any changes in the society (Roberts, Weetman and Gordon, 1998).

2.5 Accounting standard setting in developing countries

The factors from Gray's model, described previously, differ between countries, and they tend to differ more between developing and developed countries. Many developing countries are characterised by weak economic, political and legal systems, ethnical diversity and colonial history that influence the country and its culture in different ways (MFS course, PADRIGU, Göteborg University, notes, April 15-16, 2004,). Since these factors also influence the accounting system, relatively inadequate and unreliable accounting systems characterise these countries, and standard setting in accounting in developing countries tend to follow one of four strategies according to Riahi-Belkaoui (2004). These are the evolutionary approach, the transfer of technology approach, the adoption of international accounting standards and the situationist strategy, which are presented below.

2.5.1 The evolutionary approach

The evolutionary approach implies that the country develops its own accounting standards and procedures without any outside interference or influences, according to its own accounting objectives and needs. These countries assume that foreign partners will adapt to their rules in order to trade or operate with the country. This normally creates an additional cost for the foreign partners, who because of this may refrain from operating in the country. In addition, the absence of an adequate local accounting technology may hold back both local and foreign firms from operating in the country (Riahi-Belkaoui, 2004).

2.5.2 The transfer of technology approach

Development of accounting standards through transfer of accounting technology may result from international accounting firms, multinationals or academicians operating in the country. International treaties and cooperative arrangements are other reasons for a transfer of accounting technology. The transfer of accounting technology appears to be a direct benefit to the developing countries. However, there are costs associated with the transfer, such as the transfer of wrong or inapplicable technology, inappropriate infrastructure for a proper application, the increased dependence on outside experts, the lack of incentives for developing local standards and a possible loss of pride (Riahi-Belkaoui, 2004).

2.5.3 The adoption of international accounting standards

This strategy consists of the developing country joining the IASB or some other international standards body. The rationale behind that strategy may be to reduce the set-up and production costs of accounting standards, to join the international harmonisation drive, to facilitate the growth of foreign investment, to enable its profession to emulate well-established professional standards of behaviour and conduct, or to legitimise its status as a full-fledged member of the international community. A question is whether the benefit strived for outweighs the misspecifying of costs because of ignorance of country specific accounting needs (Riahi-Belkaoui, 2004).

2.5.4 The situationist strategy

This strategy implies that the developing country develops its standard setting from an analysis of advanced countries' accounting principles and practices against the factors specific in the country. Hence, the accounting system rests on varying aspects of that country, such as cultural, linguistic, political, economic, legal and tax relativism (Riahi-Belkaoui, 2004).

3 Method

In this chapter, the authors' procedures and investigation techniques for solving the research questions and fulfilling the purposes are presented, firstly, in an overview in "choice of method". Thereafter, methods for research in developing counties are discussed. After that follows a description of "Investigation technique for the preparatory data collection". The preparatory data collection was aiming for obtaining basic knowledge about accounting in Bolivia. In "Investigation technique for research question one", the most important external users to investigate further are selected. In "Investigation technique for research question two", the factors to investigate are chosen. Last, the work with the thesis is evaluated in the section "Trustworthiness".

3.1 Choice of method

The method involves the *analysis strategy* chosen by the researcher for investigating the reality in a systematic way, in order to produce knowledge (Andersen, 1998), and it is a link between problem, purpose, theoretical understanding, data collection and analysis (Bergström and Lumsden, 1993). Enderud (1986) has constructed a figure that is presented below regarding these links, which the authors have used in their work:

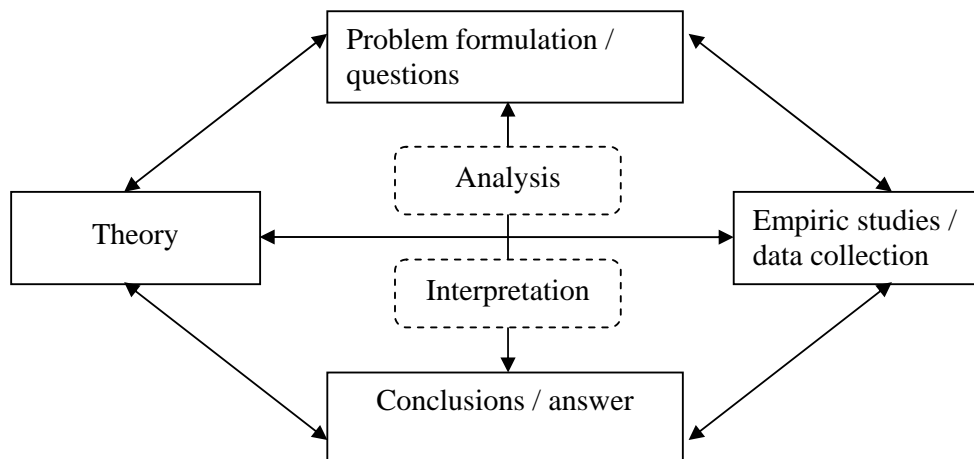


Figure 3: The main elements and procedures in the process of knowledge production (Enderud, 1996).

The analysis strategy in this thesis has been to divide the problem formulation into three research questions. Theory has been used to formulate the problem, and to select what to search for in the empiric study and data collection. Theories have also been utilised in the interpretation of the empiric study and in the following discussion in the result and analysis.

The research in the thesis departs from *the user system*, implying that a study of the external users' demands of accounting information has been conducted, since accounting information is intentioned for the users. However, also *the operative accounting system* has been taken into consideration through a study of the producers' prerequisites to supply the information demanded by the external users. Together, these studies help analyse what would be an appropriate level of disclosure of accounting information required by *the normative system*.

Figure 4 is a further development of figure 1 in chapter three. The thin, bold arrows going backwards, explain the interconnections of the research questions:

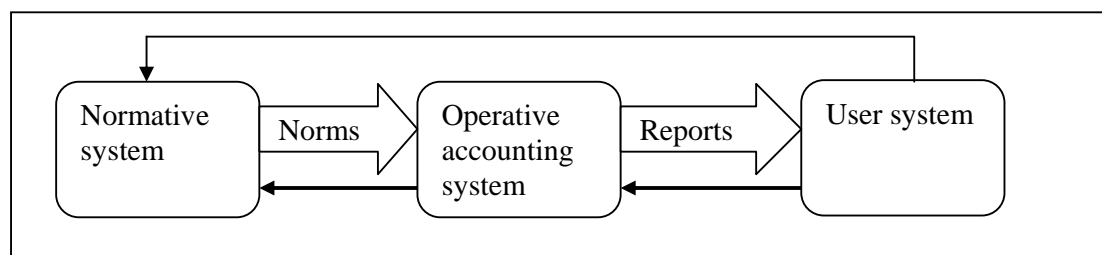


Figure 4: The interconnection of the research questions (own elaboration of figure 1, Olson, Falkman and Pauli, 1995).

In order to answer the research questions it is possible to make use of several different *investigation techniques*. Andersen (1998) describes the investigation technique as a way to use a selected set of *investigation instruments* in order to fulfil a research objective. An investigation instrument is a tool used to collect data, e.g. interviews or existing statistics. The data can be either qualitative or quantitative and the sources primary or secondary. *Quantitative data* is hard data that can be quantified, such as numbers, while *qualitative data* implies text, so called soft data, e.g. notes from an interview (Andersen, 1998; Lundahl and Skärvad, 1999). *Primary sources* involve data gathered by the authors themselves and *secondary sources* involve information already gathered by others (Lundahl and Skärvad, 1999).

There are advantages and disadvantages with all investigation instruments, and when gathering data one has to consider three variables, which are speed, cost and quality that are dependent on each other. The quality of the gathered data can be enhanced, though this implies increased costs. A quickly performed investigation may decrease the costs but it also implies lower quality. Subsequently, in general one starts with secondary data due to that it is faster accessible and cheaper, and primary data is only gathered if the secondary data available is not sufficient for the investigation (Eriksson and Wiedersheim-Paul, 1997). The general disadvantage concerning qualitative data is that it is more demanding than the quantitative since it can be more time consuming to interpret. The general opinion is also that investigations based on quantitative data are more reliable and objective (Andersen, 1998). However, Andersen (1998) also claims that an investigation is often performed in a better way if the investigator uses an investigation technique that combines different instruments and types of data.

Regarding this thesis, it was not possible to perform the research with the usage of solely one type of instrument or data. For instance is there a lack of secondary data concerning the Bolivian small and medium sized companies accounting and of the users of the information, why the authors have made use of primary sources to a large extent. Furthermore, the research questions were of that type that demanded qualitative data more than quantitative data, even though some quantitative data was required. Thus, in order to answer the research questions both primary and secondary sources have been used, as well as qualitative and quantitative data. An overall picture of this is presented in table 1, while the instruments that have been used will be further described in the following sections.

Table 1: Research method / sources of information

	Primary sources	Secondary sources
Qualitative data	<ul style="list-style-type: none"> • Interviews with users of accounting information, specialists in accounting issues, representatives for Bolivian small and medium sized companies, etc. • Field study observations 	<ul style="list-style-type: none"> • Documents (socio-economic, financial etc) • Theory/literature
Quantitative data		<ul style="list-style-type: none"> • Statistics

To conclude, the method chosen depends on the area of investigation, but also on the problem formulation and the purpose, including what interest the author has to contribute to the research (Andersen, 1998; Bergström and Lumsden, 1993). The methodological choices however have consequences for the result (Andersen, 1998; Eriksson and Wiedersheim-Paul, 1997), and these consequences will be discussed later in the section “Trustworthiness”.

3.2 Methods for research in developing countries

Mikkelsen (1997) asserts that research and work in developing countries, performed by other nationalities, have often been criticised for usage of methods with “top-down” approaches. The “top-down” approach implies that researchers come up with and implement ideas that they believe are the most suitable for the beneficiaries, i.e. the developing country, but without involving the inhabitants in the development of the ideas. This approach is now broadly considered as one of the main causes for development projects to fail.

Lately the “bottom-up” approach has gained general recognition as a far better method in development projects. The “bottom-up” approach involves that the beneficiaries themselves are involved in different ways in the development project, and that the users’ problems and their cultural context is appreciated. The beneficiaries are thus motivated to participate actively all the way from the development of ideas to the implementation. The users are thereby involved directly in a trial of problem-solutions during the process, why weaknesses and strengths are perceived directly by the participants, and a better understanding of the problems can be reached. The “bottom-up” approach furthermore implies that possibilities and conditions of change are enlightened rather than “forced” on the beneficiary.

This thesis is aiming for a use of a “bottom-up” approach. This is pursued through a use of trials of problem-solutions during all the interviews in a search for different opinions, which are used and enlightened in the analysis. Furthermore, a perspective of stakeholder problems and the cultural context is decisive in the investigation, which is especially obvious in research question two, where the companies’ prerequisites to account are investigated. Furthermore, in the analysis, the authors have chosen not to give absolute recommendations, but rather to enlighten possibilities of change. For this particular reason, the word “could” is often used rather than “should” in the result and analysis.

3.3 Investigation technique for the preparatory data collection

The purpose of the preparatory study has been to acquire basic knowledge about accounting in Bolivia and about the plan for Project 205, but also to increase the authors’ knowledge of

accounting theory, i.e. qualitative data was sought after. This information is to the main part presented in chapter 1. The investigation instruments chosen have been literature studies and interviews. In addition, the authors have attended a preparatory course about methods for field studies in developing countries, as mentioned in 1.7. The literature studies, such as books, documents and the Internet, concerned accounting theory, international accounting, accounting regulation, and general and economic information about Bolivia etc. Interviews have been carried out with persons involved in Project 205 and with persons with special knowledge of accounting, since not all desired information could be obtained through secondary sources.

Before going to Bolivia, the authors interviewed Carl-Gustav Svensson, handling officer at the Bolivia section at SIDA in Stockholm; Jörgen Handell, consultant at Ekonomitolken AB, and Eva Törning, at Öhrlings PricewaterhouseCoopers in Malmö and accounting expert at the Swedish organisation for authorised auditors and specialists in accounting (FAR), with whom a telephone conference was conducted. Handell and Törning both have visited Bolivia regarding Project 205, employed as consultants by SIDA. Another interviewee was the authors' lecturer in accounting, Jan Marton, associate professor at the Department of Business Administration, Financial Accounting and Company Analysis Group, School of Economics and Commercial Law, Göteborg University.

In Bolivia, the first meeting was held with the authors' pre-established contact person, Ruddy Ampuero, private sector developer at SIDA in Bolivia. Ampuero provided the authors with more information about Project 205, along with suggestions of other persons and organisations to contact. Two meetings were held with Adolfo Mendoza, director of the Auditing Degree at the University of UMSA in La Paz, where the first meeting was informal and the second was an interview. The interview with Mendoza did not solely serve as preparatory data collection but in addition to obtain information for research question two. The same goes for the interviews with Héctor Vargas and Edgar Barea, partners and auditors at Barea, Vargas y Asociados.

All preparatory interviews were semi-structured where an interview guide was used, but not followed strictly. The purpose of semi-structured interviews is to allow other potential relevant information on the subject to evolve during the discussion (Lundahl and Skärvad, 1999) and the authors were, in the preparatory study, interested in achieving as much information as possible. The interview guides can be found in appendices 2-8.

3.4 Investigation technique for research question one

The first research question to investigate was “*What accounting information do the most important external users demand from Bolivian small and medium sized companies?*”. To determine this, there was initially a need for determining who the external users were and which were important in the case of Bolivia. Therefore, research question one has been divided into the following methodological questions:

Who are the most important external users of accounting information of Bolivian small and medium sized companies, and for what purpose do they need accounting information?

What accounting information do the most important external users demand?

The selection regarding the first methodological question, i.e. the most important users, is presented in section 3.4.1. Thereafter, follows the selection of interviewees used to answer the second methodological question, which is later presented in the empiric study in chapter four.

3.4.1 Selection of the most important external users

The most important users have been selected in accordance with theory regarding external users, described in section 2.3, together with the proposal of Project 205 and information from the preparatory data collection, presented in chapter 1. The authors have found the most important users of accounting information in Bolivia to be *the lenders* and *the state*, while owners, suppliers, customers, employees and competitors are not considered sufficiently important in the further investigation.

The main purpose for the lenders to use accounting information is to evaluate the credit risk of the company, i.e. the ability to fulfil due payments with interest. The lenders, together with the owners, are normally viewed as the most important users. Moreover, Project 205 states that one of its objectives is to increase the formal sector in Bolivia and through this increase the tax revenues. In order for this to occur, the possibility to receive loans through a more useful and reliable accounting, is an incentive for the informal companies to enter the formal sector (CAINCO, 2003). Consequently, lenders ought to be considered as an important user of accounting information in Bolivia.

Accounting among small and medium sized companies in Bolivia today has a clear tax connection. Thus, the state is one of the most important users and the question of whether the tax connection will remain strong or not is important. Handell (Feb. 6, 2004) also mentions the idea in Project 205 to use the accounting for statistics collected by INE and this would therefore be another important purpose for the state to use accounting information.

Concerning the owners, small and medium sized companies in Bolivia are to the major part family businesses that are not listed on the stock market. In this case the owner and the management do not represent two different units, which implies that the owners' interest of accounting information would have to do with the internal management, which has been excluded from the investigation in this thesis.

Suppliers, costumers and employees are considered important users in the proposal of Project 205 (CAINCO, 2003). However, according to Svensson (2003) accounting information that is useful for the lenders should be sufficient also for other users. Because of this, and the fact that the annual report in Bolivia is not public, why suppliers, costumers and employees probably do not have much experience of using accounting information at present, they are not considered being among the most important users in the investigation. Competitors are obviously not considered as an important user since their use of a company's accounting information is not really wanted by the company.

3.4.2 Investigation instruments

To answer the second methodological question, qualitative data gathered through interviews has been used since this information was not available in secondary sources. As described above the users to be investigated further were the lenders and the state, why representatives for these groups had to be selected, which is motivated and presented below.

Lenders

In order to select adequate lenders to interview there was firstly a need to survey the Bolivian market of financial institutions. Decisions were thereafter made on who to interview, based on their potential experience of small and medium sized companies' accounting information.

In Bolivia, the financial institutions involve the bank sector, the non-bank sector and other financial entities. The bank sector consists of exclusively commercial banks. The non-bank sector's main priority is persons and businesses with low and middle income, and includes the mutual system of savings and loans for housing, the cooperatives for savings and credits, and the private financial funds (FFPs) that work with so called micro credits. Other financial entities include Securities, Values and Pensions. There are also NGOs acting on the financial market, concentrated in the rural areas of the country (Nueva Economía, August 2003).

The commercial banks are considered the most important financial actors for the Bolivian Economy since the vast majority of the savings takes place in the banks and their activity determines the rates of interest for savings and lending on the market. There are currently twelve commercial banks in Bolivia (Nueva Economía, August 2003) and Banco Sol, registered as a commercial bank, but that works with micro credits as do the FFPs (Ekberg and Persson, 1999; Sioila, Banco Sol, May 19, 2004). Below they are listed in accordance to value of portfolio in June 30, 2003 (Nueva Economía, August 2003):

1. Banco Nacional de Bolivia (BNB)
2. Banco Bisa
3. Banco Mercantil
4. Banco de Crédito de Bolivia (owned by CREDICORP de Perú)
5. Banco Santa Cruz (owned by el Grupo Santander Central Hispano de España)
6. Banco Unión
7. Banco Económico
8. Banco Ganadero
9. Citibank N.A.
10. Banco Solidario (Banco Sol)
11. Banco de la Nación de Argentina
12. Banco do Brasil
13. Banco Sucursal Bolivia

The authors have selected to interview representatives of five commercial banks because of their relative importance within the financial market even though small and medium sized companies are not their dominating clients. These selected banks are Banco Bisa, Banco Mercantil, Banco Santa Cruz, Banco Unión and Banco Económico, which represent commercial banks of varying sizes.

The FFPs are specialised in micro credits to companies that do not have access to ordinary bank loans, since they lack sufficient guarantee, or are simply too small. This sector differs from the commercial bank in types of clients, instruments and financial risks; and because this business therefore has high costs, the interest rate is usually high. The actors on the market of FFPs, are, in order of value of portfolio, in June 30, 2003 (Nueva Economía, August 2003):

1. Caja Los Andes
2. Prodem
3. Fie
4. Fortaleza
5. Fondo de la Comunidad
6. Eco Futuro
7. Fassil
8. Acceso

Since the activity of micro creditors is focused on smaller companies, the FFPs Caja Los Andes and Prodem were selected for interviews. The commercial bank Banco Sol was also selected to represent the micro creditors, since it has the same objective as the FFPs.

The principal activity of the financial NGOs is to grant services of micro credits for those companies that do not have access to other financial services, especially in rural areas (Nueva Economía, August 2003). Two employees at the NGO, Idepro, were interviewed, but mainly with the intention to answer research question two. However, questions were also asked about their demand of accounting information for granting loans.

Structured interviews have been performed with representatives for the five commercial banks and the three micro creditors, implying that the same questions were asked to all interviewees (Lundahl and Skärvad, 1999). The motive for using structured interviews was to be able to compare the answers and draw conclusions of what demand of accounting information the different actors have to assess creditworthiness. The interviewees were all either working with credits to small and medium sized companies, or involved with these procedures through their positions as managers.

The interview guides for the commercial banks and the micro creditors are found in appendix 9, respectively 10 and can be divided into three parts. The first part is for the authors' determination of the banks and micro creditors' current experience of small and medium sized companies, to be able to evaluate the relevance of the interviews (Questions 1 and A-E for banks, and 1-7 for micro creditors). The second part consists of questions about what information they demand from small and medium sized companies and their perceptions of these companies accounting knowledge (Questions 2-14 for banks, and 8-24 for micro creditors). The third part in the interview guide challenged the interviewees to give thoughts and ideas about the minimum accounting information that would be needed from small and medium sized companies in order to perform an evaluation of creditworthiness, if this was supported by a standardised and transparent accounting system (Questions 15-20 for banks, and 25-30 for micro creditors).

The answers from the interviewees with the lenders are grouped and presented under three larger questions presented below. The first and second question corresponds to the second part in the interview guide, described above, and the third question corresponds to the third part in the interview guide. The three different groups of lenders, i.e. the commercial banks, the micro creditors and the NGO are analysed as a group of lenders with generalising answers, and are mentioned only separately when there are differences that the authors wish to accentuate.

What accounting information and other, is demanded by the lenders to grant a loan to a small or medium sized company?

What respectively importance does different kind of information have for the lenders?

What accounting information would the lenders demand with a potential future standardised and transparent accounting system?

The State

The authors have, as mentioned earlier, identified two possible purposes for the state to demand accounting information, for tax purposes and for collection of economic life statistics. Therefore, the desired future tax connection of the accounting has been investigated along with details about the plans of the collection of statistics. This information was not found in secondary sources and therefore Ruddy Ampuero was the person interviewed for this purpose, since he, as private sector developer at SIDA in Bolivia, should be the person with most insight in these issues. The interview guide can be found in appendix 6.

3.5 Investigation technique for research question two

Research question two deals with *Bolivian small and medium sized companies' prerequisites to present the accounting information demanded by the external users*, and it has been assessed through an investigation of these companies' characteristics and other circumstances that determine their prerequisites to account. First and far most this has required an identification of factors that determine these prerequisites. Below, the selected factors to investigate are motivated, followed by a description of the selected investigation instruments.

3.5.1 Selection of factors to consider

To select the factors to consider regarding research question two, the authors started from Gray's theory of "traditional factors that influence the development of accounting systems". The authors believe that these factors are not only explanations for national differences, but can also be used to describe the prerequisites for companies in a nation to account. However, all influences named in the theory were naturally not relevant to investigate, but some have been determined as more important for Bolivia and its small and medium sized companies, and these are presented below.

Structure of the Bolivian economic life

The structure of the economic life, which is a part of the institutional factors, affects the types of business transactions that are common in a country and these transactions determine the topical accounting issues that are important in that specific country. Due to that Bolivia is a poor country with a less developed economy the authors consider the structure of the economic life a very important factor. In the structure of the Bolivian economic life, the authors have investigated the following sub-factors:

- type of industry / sector in the Bolivian economic life
- structure of the Bolivian economic life according to company size
- the existence of formal and informal businesses
- location of companies / urbanisation
- the corporate financing system

Level of technology

Another factor that the authors consider important is the level of technology, which is determined by the economic and political system, a part of the institutional influences. Access to accounting programmes, and knowledge of how to use them, would simplify the accounting for small and medium sized companies. Hence, supply of electricity and usage of computers are basics for this purpose, why the following sub-factors have been investigated:

- supply of electricity
- supply of computers
- supply of accounting programs

General educational level

The educational system is another factor that is affected by institutional influences. The educational system and the general educational level of the population is important to investigate since it can influence the level of knowledge among the companies' managers and employees and thereby effect the Bolivian economic life and the accounting. Sub-factors that have been studies within this area are:

- primary and secondary schooling, officially and in reality
- illiteracy
- language skills

Level of accounting knowledge among the producers of financial information

The level of accounting knowledge among the producers is another factor affected mainly by institutional influences. This factor is the most important factor to consider since it has the most direct influence. The following sub-factors have been selected for investigation:

- how many companies do account
- level of knowledge concerning economy and accounting among small and medium sized companies
- how many of the companies that do account demand external assistance
- university education
- economic and accounting education for adults

The profession of auditors and accountants

The profession of auditors and accountants is another important factor within the institutional influences. As stated earlier, Project 205 is expected to increase the number of formal companies in Bolivia, which would increase the demand for accountants' and auditors' services why it would be important that the supply of this profession was sufficient. The perception of these actors is furthermore very important, i.e. if accountants and auditors are seen as independent and reliable, since this in turn affect the perceived value of financial

statements (Roberts, Weetman and Gordon 1998). Therefore, the authors have investigated the following sub-factors:

- reliability and trustworthiness of the accountants and auditors
- are there enough auditors and accountants for a possible increase in demand for their services

Societal values and values of accounting

According to Gray, cultural values are one of the most important influences on accounting systems since these impact accounting values as well as other influents. Thus, values of accounting are decisive in this project. The societal values may also have a determinant influence of whether a change in society will be successful or not and must therefore be investigated in this thesis. The issues chosen to investigate in this area are:

- willingness to account among small and medium sized companies
- attitudes towards accounting and displaying private information among small and medium sized companies
- attitudes towards societal changes

3.5.2 Investigation instruments

For the investigation of the prerequisites, secondary data in form of statistics and documents from both Bolivian and international sources has been used when this has been available. This has been complemented with primary data gathered through interviews with persons with special knowledge regarding the prerequisites of small and medium sized companies.

CIOEC, an organization that represents and coordinates the Rural Economy Organisations (OECAs) of Bolivia was a selected interviewee, as its organization represents more than 100,000 Bolivian peasant families, of the approximately 350,000 existing ones. The OECAs are organised in businesses of different size and type, and many of them are small-scale cultivators (www.cioecbolivia.org). Even if CIOEC only covers the agricultural sector, the data from this organisation is an important contribution particularly to the investigated factor “level of accounting knowledge among the producers of accounting information”. The interview was held with Elizabeth Marca, accountant at the head office at CIOEC in La Paz, who has most insight in accounting issues among their members.

Another selected interviewee with knowledge about small and medium sized companies’ accounting and other characteristics was the NGO, Idepro, which works with both provision of managerial service and credit service to micro, small and medium sized companies (www.idepro.org). Their clients are mostly situated in urban and peri-urban areas, while the rural area is covered to a less extent (Chavez, Idepro, May 28, 2004). Interviews were held with two representatives for the NGO, Leonardo Chavez, technician of the credit services, and Sandra Nisttahasz Antequera, technician of the provision of managerial services.

As mentioned in section 3.3 two interviews were destined for both the preparatory study as well as for question two; Héctor Vargas and Edgar Barea, partners and auditors at Barea, Vargas y Asociados in La Paz, and Adolfo Mendoza, director of the Auditing Degree at the University UMSA in La Paz. The auditing firm Barea, Vargas y Asociados does not normally work with small and medium sized companies, but thanks to their cooperation with NGOs that provide credits to smaller companies, they have experience of small and medium sized

companies accounting (Barea and Vargas, May 19, 2004). Mendoza is a writer of several accounting books and is specialised in agricultural accounting in Latin America (Mendoza, UMSA, May 28, 2004), why he has a vast knowledge of Bolivian accounting and companies' prerequisites to account.

The interviews were all semi-structured where interview guides were used as a base. The reason for choosing semi-structured interviews is the same as for the preparatory study, to allow additional relevant information to evolve during the discussion. The interview guides can be found in appendices 7, 8 and 11-13.

3.6 Investigation technique for research question three

The analysis in this thesis mainly aims for a discussion about *the appropriate level of mandatory disclosure of accounting information for small and medium sized companies in Bolivia*, which is regulated by the normative system. This corresponds to research question three, which is an outcome of the answers of research question one and two, i.e. the users' demand and the companies' prerequisites to account. This issue is analysed through the results from research questions one and two along with theory and no new data has been added.

The analysis is divided into several steps. After a compilation of research question one and two and where the users' demand for accounting information is compared to the producers' prerequisites to account, the benefits and costs of accounting for Bolivian small and medium sized companies are analysed with help from theory regarding this issue. Thereafter, the appropriate level of disclosure is discussed and the option of differential disclosure for Bolivian small and medium sized companies is compared to other possible alternatives. Finally, the discussion is narrowed down to what reports that should be mandatory demanded by the regulators, where the empiric studies make basis for the discussion. Thereafter, the authors give recommendations about other measures and some advice that the government preferably should consider if a change in the accounting system would come through. This part is based on theory about cultural influences but also on personal thoughts and experiences achieved during the investigation.

3.7 Trustworthiness

There are, as previously mentioned, advantages and disadvantages with the chosen methods. The choices made in this thesis have been made because of the type of the study and the possible access to information of different kinds, as described in each section above. However, to be able to trust the results in the thesis and to acknowledge eventual causes of uncertainty it is necessary to evaluate the methodological choices made, and this can be done through an evaluation of the validity, reliability and relevance (Andersen, 1998).

3.7.1 Validity

Lundahl and Skärvad (1999) describe validity as how well an instrument actually measures or investigates what is intended to be measured or investigated, i.e. that there are no systematic errors. Thus, in order to achieve validity, the method chosen by the authors has to provide the information that is sought for (Andersson, 1985). Compared to the reliability, the validity cannot be improved by adding more elements such as using literature from several authors instead of few, since it is the validity of the literature in itself that is important (Lundahl and Skärvad, 1999). Hence, it does not matter if the authors use data from two or 20 different

sources if the instrument chosen does not measure or describe what the authors search for. For this reason, it is crucial to gather empiric data that is relevant for the theoretical research questions (Halvorsen, 1992).

As mentioned, the investigation instruments selected in this thesis have departed from the information needs, why the authors believe that the investigation has a high validity. Secondary sources have been used when it could provide the information sought after, and primary sources have complemented with information that was not obtained in these sources. Additionally, the field study in Bolivia was carried out with the intention of achieving a certain level of validity of the investigation. If this study had been conducted in Sweden it would not be very valid since it would mainly be based on theory and insufficient secondary information.

The interviews in Bolivia, were all conducted in Spanish, except for with Swedish speaking Ruddy Ampuero at SIDA. Both authors speak Spanish fairly well; however, there can always be misinterpretations when interviewing, especially if the interviewer and the interviewees do not have the same mother tongue. Thus, it is possible that the authors did not completely understand every answer. However, in order to avoid misinterpretations, both authors were present during every interview and in addition a dictaphone was used and all interviews were than transcribed. The interviews with Arandia at Banco Bisa, Siola at Banco Sol and Chavez at Idepro were however, answered in writing since the interviewees did not have time to do it orally which obviously makes it impossible for the interviewer to develop the conversation and explain uncertainties that the person being interviewed may have. Thus, there is a risk that these interviewees may have misinterpreted some questions since the authors were not present in order to clarify them. On the other hand, there is an advantage in written answers since these are harder to misinterpret for the interviewer.

Furthermore, it is equally possible that some of the interviewees did not fully understand all questions reason for why the answer may not correspond to the intended question. Different languages are however not the only possible cause for misinterpretations. Eriksson and Wiedersheim-Paul (1997) explain that in a society and among people in it, there exist many values and perceptions and these are most likely different in Bolivia and Sweden. Due to different referential frames, misinterpretations may have occurred that may have affected the validity of the results. For instance, when the authors asked about accounting information their reference point was Sweden, with fully elaborated financial statements in an annual report, which is almost inexistent in Bolivian small and medium sized companies. Hence, when standardised accounting systems are brought up during interviews this idea can be difficult to grasp for Bolivians.

3.7.2 Reliability and criticism of sources

Reliability means that the instruments the authors have used in the investigation are trustworthy, and that if someone else would perform the same study under equivalent conditions, the result should be the same (Eriksson and Wiedersheim-Paul, 1997). However, adding more elements, such as interviewing more persons, can enhance the reliability.

The instruments used for this investigation involve, as mentioned earlier, both secondary and primary sources. The usage of several different sources may increase the reliability according to Eriksson and Wiedersheim-Paul (1997) and concerning the secondary data in this thesis, the authors have used literature, reports, documents, articles and the Internet. These constitute

a great variety of different kinds of sources, which in itself imply a high reliability since it enables comparison of opinions and thought from many sources. However, some sources are more reliable than others.

Regarding the literature, the authors consider this to be reliable since it is of academic nature. The authors have also mainly used reports, documents and articles from well known and reliable organisations such as the World Bank, the UD and Idepro. The same goes for the Internet sources where governmental homepages have been used to a large extent in order to enhance the trustworthiness since the Internet, among sources of information, in general is the least reliable.

It is also of great importance that the people interviewed are reliable and relevant sources of information. For the preparatory study interviewees were selected for their special knowledge about the Project 205 and about accounting. These interviewees are specialists in their field of work and the same goes for the auditors Barea and Vargas and Mendoza. Regarding the other interviewees, they all worked or had experience from work with small and medium sized companies in Bolivia or from using these companies accounting information, reason for why the authors think that the interviewees were reliable and relevant sources of information.

Nevertheless, there are certain factors that may decrease the reliability of the interviews performed in Bolivia. The authors noticed that a common feature in Bolivia was that people were very reluctant to admit that they did not know the answer to a question. The interviewees were very helpful, however; the authors noticed that sometimes some interviewees intended to answer all questions even though they did not have perfect knowledge about it, a reason for why the reliability can be questioned. However, this is not a large problem since the authors once having noticed this, double checked the information through the use of other sources.

3.7.3 Relevance

Relevance implies that the investigation chosen is not solely important for the researcher himself but in addition for other people (Eriksson and Wiedersheim-Paul, 1997). Thus, in order for this thesis to be relevant it is necessary that the people involved in the project of improving the Bolivian accounting system can make use of it.

As mentioned earlier, there is not much written about Bolivian small and medium sized companies and their accounting, and they are not taken into much consideration in the plan of Project 205. The authors believe that this thesis can illuminate certain aspects and facts that otherwise would be left out and therefore it is relevant.

Halvorsen (1992) states that it could be complicated to utilise data gathered by others since it may not always be relevant for the investigation, and as mentioned earlier, there is in fact not much literature that concerns Bolivian small and medium sized companies and their accounting. For this reason, interviews have been used to a large extent. The usage of primary sources in form of interviews often implies a selection of persons to interview since it is often requires too much time and money to interview all potential interviewees. The generalisation of the result is highly dependent on the selection and therefore it has to be representative for a larger group. That the selection is representative implies that the result obtained by interviewing the selected persons would be the same as if all potential interviewees were to be interviewed (Halvorsen, 1992).

Concerning the banks, the selected ones are both among the larger and the smaller ones in Bolivia as already been displayed in section 3.4.2. Even though small and medium sized companies are not primarily clients in commercial banks all banks interviewed granted loans to these companies and four out of five had at least five years experience from working with them. Regarding the micro creditors, they specialise in banking services for smaller companies and three of the largest ones and were selected for interviews. The reason for this was that these were the most common in La Paz where the interviews were conducted. However, not all questions were answered completely answer by all lenders, something that decreases the possibility of generalising the answers. Still, the authors believe that the primary sources are relevant and the answers fairly representative for the whole group.

4 Empiric Study: Research Question One – Demand For Accounting Information

Research question one, “what accounting information do the most important external users demand from Bolivian small and medium sized companies?” is answered in this chapter through a presentation of the results of the empiric study. The investigated users are representatives for the lenders and the state, since these have been found as the most important current and potential users of accounting information in Bolivia.

4.1 The lenders

This section is based on the interviews performed with the lenders, which are represented by five banks, three micro creditors and one NGO, Idepro. When the term “lenders” is used in this section, it includes the generalised answer from the commercial banks, the micro creditors and the NGO. The different types of lenders are only mentioned separately when the authors wish to accentuate differences in their answers. The answers from the separate questions have been grouped and are presented in three parts.

What accounting information, and other, is demanded by the lenders to grant a loan to a small or medium sized company?

All lenders investigated, including micro creditors and the NGO, need accounting information on which to base their loan decisions. However, speaking in terms of accounting information, implying that the information is structured and presented in a standardised way, cannot be done since accounting information presented this way rarely exists among small and medium sized Bolivian companies. Formal companies sometimes account, but it is very difficult to find a small and medium sized company that has complete, true and reliable statements where the sales actually sum up to the true sales. Therefore, the lenders use all financial information available, which they use in order to personally elaborate financial statements of the loan soliciting company. This is especially obvious when dealing with informal companies, as do the NGO, the micro creditors and four out of five commercial banks.

When dealing with formal companies, all commercial banks want as much accounting information as possible, and they are legally obligated by the Superintendence of Banks and Financial Entities (SBEF) to demand the financial statements used for taxation, or the audited report in case of a large company. All banks demand, or elaborate, and analyse the income statement, the balance sheet and the cash flow statement and sometimes the statement of changes in equity. Since most companies also have a “double accounting”, i.e. one falsified report for the tax authority, and a real one with all its shortcomings, banks, for the time being, demand both in order to evaluate the true financial situation of the company. However, a new law from the end of 2004 will prohibit the banks to use any other than the accounting that is used for taxation purposes.

Many of the micro creditors’ clients are informal businesses that would not be accepted as clients in a commercial bank because of a lack of quality in the guarantee or insufficient accounting information. Therefore, also the micro creditors themselves have to elaborate financial statements such as a balance sheet, an income statement and a cash flow statement from the information that they obtain from the loan soliciting company. For this elaboration, it

is necessary that the loan soliciting company can provide the micro creditors with some sort of register; of sales, purchases, production, accounts receivables etc.

Thus, all lenders mostly have to gather and elaborate the accounting information themselves. When it concerns informal clients, it is in general due to the lack of accounting information and in the case of formal clients, it is normally because of the lack of quality and trustworthiness, which in turn is caused by the “double accounting”.

Since the accounting in general is not considered reliable, if even existing, all lenders demand additional information that can support the accounting information. Additional information can include the journal, the general ledger, the inventory book, information about clients and suppliers, receipts on sales and purchases, the internal accounting, contracts, the history of the company etc; anything the company has that can support the income, cost, and capital that it claims to possess. In some cases, the lenders also request back up information from the company’s costumers and suppliers, or evaluate the personal economy of the owner and the family members. For the micro creditors and the NGO it is the additional information that many times is their primary source of information. Additionally, the micro creditors and the NGO focus more on social information than the commercial banks do. Social information include information such as age, experience, other activities, number of children, type of housing, activities of family members, family expenses, attitudes, what the income is used for etc. Besides, micro creditors and the NGO grant loans to micro businesses, thing that commercial banks in general do not do. Micro businesses usually do not have any registers at all, thus, in these cases, the evaluation of creditworthiness may start with “counting the cash in the pocket” in order to find out the true situation of the company.

Because of the low reliability of the companies and their accounting information, another important issue for the lender, in addition to the evaluation of the creditworthiness, becomes to evaluate the moral quality of the client to find out whether or not the solicitor is providing true facts and really have the intention of paying back the loan. In this process, the credit clerks of the banks and micro creditors conduct formal as well as informal visits to the companies and photograph their inventories and other assets, to assure that the information presented is coherent with the reality.

All lenders, from time to time, perform a general analysis of the market, the sector and the positioning of the loan soliciting company, i.e. its competitors, its competitive force, its risks and advantages, etc. In order to do this they use secondary information such as financial information and statistical information in economic newspapers, credit registers and ministries and chambers of the related sector. Several interviewees also mentioned their colleagues, i.e. other credit clerks, as an irreplaceable source of information with whom to exchange experiences.

Furthermore, all lenders have policies that demand guarantees for granting a loan. All commercial banks demand real guarantees, preferable hypothecs such as houses, but occasionally they accept cars and machinery. Personal guarantees are not considered valuable enough for the banks. The micro creditors also require real guarantees, and two out of three are satisfied with machinery while the third demand hypothecs. The NGO may settle with a personal guarantee, i.e. a signature from someone who stands surety for the solicitor. In general, the guarantee demanded, as well as the information demanded, are in proportion to the size of the loan, i.e. the larger loan solicitude, more advanced information and more valuable guarantee is required.

The lenders use sophisticated methods to make a loan decision. All banks use models to evaluate the formal loan soliciting companies and structured procedures for the informal companies. The micro creditors do not have models but have standardised work procedures where they systemise the information. Both the models and procedures involve crossing accounting information with other information, both qualitative and quantitative. One bank includes in the model the factors, growth and stability, profitability, evaluation of past and present loans and evaluation of the future loan capacity, which corresponds to theory regarding estimation of creditworthiness, according to Broomé, Elmér and Nylén (1995). Two of the banks that have procedures for informal companies include factors such as sales, inventories and turnover rate. The banks also make prognosis of the future cash flow when they have information reliable and advanced enough to do it. One of the micro creditors include in the analysis, moral values, solvency and social and economic characters. However, according to the lenders it is difficult to use the same model or the exact same procedure for different companies since they all have special characteristics. Yet, one bank has a policy to always use the same model to encourage the companies to produce proper accounting information themselves. Moreover, the low reliability in the companies accounting information affects the viability of the models and the procedures. Hence, the more formal is the company, the more advanced analysis procedures can be used.

What respectively importance does different kind of information have for the lenders?

In general, the lenders consider accounting information important in relation to other information, even though they mostly have to elaborate it themselves. Some consider accounting information “the heart of the business” while others think it is of certain importance. Some lenders however point out that the accounting information cannot be important in the state it is presented now, since all information is irrelevant when it is bad. Consequently, the importance of accounting information depends on the level of formality of the company, and it always has to be supported by additional information. The more formal the company is, the more important is the accounting information, and the less formal the company is, the additional information becomes more important. Secondary sources are important for most lenders but have no determining influence over the loan decision.

All commercial banks and micro creditors consider the income statement and the cash flow statement to be among the most important accounting information. A motivation for the income statement is that it gives an indication of whether or not the client is successful and thus will be able to pay back the loan. However, one bank does not consider the cash flow especially important when dealing with informal companies, and for one micro creditor the income statement is not as prioritised as the cash flow analysis, the balance sheet and the financial analysis. The balance sheet is equally important as the income statement and the cash flow analysis for some banks and micro creditors and highly prioritised of the others. The balance sheet shows the size of the equity and debt and this is an important fact in the determination of the size of the loan for some lenders. Other accounting information considered important is the statement of changes in equity, the risk analysis and the financial analysis, including solvency, liquidity and profitability rates. Prognoses have some importance for the lenders. The administrative report, the management’s discussion, notes and other information including facts about employees, the environment etc is not of much importance. Still, one bank points out that social responsibility such as environmental

concerns has begun to be used as a requisite for granting loans, and as mentioned earlier, micro creditors value social information highly since many of their clients are informal businesses.

Since small and medium sized companies do not need audit of accounts, the auditor's report and the auditor are not considered important for the loan decision. For some of the banks that work with large companies that need audit of accounts, the auditor's report is used as a reference, if used at all, but it is not a decisive document in the loan decisions. However, one bank demands the financial statements to be audited also of loan soliciting small and medium sized companies and therefore consider both the auditor and the auditor's report very important.

What accounting information would the lenders demand with a potential future standardised and transparent accounting system?

All lenders consider that standardised accounting procedures would be helpful. It would simplify for the lenders in the evaluation of creditworthiness, and since the process of granting a loan would be faster, it would benefit both the lenders and the loan soliciting company. The lenders also believe that these standardised accounting procedures would facilitate for small and medium sized companies to present formally elaborated accounting information, which would improve the relevance of the accounting information, as well as the quality.

There are however diverse opinions about whether a standardisation really will make much difference or not concerning the reliability of the accounting information. While one bank mentions that a standardised accounting system could make the accounting information more transparent and reliable, another points out that the standardisation in itself would not guarantee that the regulations would be followed, and subsequently the same unreliability that exists today would probably remain. The problem is not always the way in which the information is presented since clients can present untruthful figures even with a functioning standard. Another bank gives a well described image of the same opinion: "In the Bolivian reality of today there is not much transparency and this complicates evaluating all companies the same way. It would be easier with a standard, but for now, that is a fictitious world in Bolivia and without transparency a standard would not help much".

All lenders consider that the provision of less accounting information from small and medium sized companies, in comparison to large companies, would be sufficient for a loan decision. It is logical that small and medium sized companies provide less information since large companies have financial departments, and smaller companies do not need to manage that many complicated accounts as larger ones. The minimum accounting information the lenders would require, if it were supported by a standardised and transparent accounting system, differ between the lenders, but as several of the lenders express it, they consider it sufficient with basic information as long as it is clear and true. One commercial bank and one micro creditor could manage with an income statement, a balance sheet and a cash flow statement if they were of good quality. According to the same bank, the statement of changes in equity could be excluded since the bank itself could elaborate it from the other information. For the same reason it could also be without a consolidated statement, if there were several small companies in a group of companies. One bank considers sales, costs and how the company has managed its debts to be sufficient information, as long as the company had a regular control of it. Another would ask for an income statement and a balance sheet if they were

clear and correct. One bank however would demand the same information that is demanded today, i.e. the income statement, the balance sheet, the cash flow statement, the statement of changes in equity and notes, but the amount of information would not have to be as extensive as for a large company. One micro creditor considers it sufficient with a register of the inventories that they could verify. Another micro creditor needs at least daily, weekly and monthly sales, profitability margins, statement of changes in equity, destiny of incomes, social information etc.

Regarding the question if it would be sufficient with information solely about the cash flow if it was supported by a standardised and transparent accounting system, there were also mixed opinions. Three commercial banks, one micro creditor and the NGO think it could be possible and that it would facilitate for the companies, while two banks and two micro creditors object to the thought. One of those who think it could be possible adds it sometimes in fact already grants loans based on cash flows since it sometimes is the only available fact that a company may have, but that it has to be supported with additional information. Two of the agreeing lenders add that the cash flow shows the historical flows, which are the base for the projection of future flows. Without this projection, it would not be possible to grant a loan. One adds that if the company does not have possibilities to produce good balance sheet and income statements, it can be derived from the real flows. The third agreeing lender thinks it is possible if there were a system where the information could be shared between credit institutes and small and medium sized companies and institutions with technical assistance to help the companies account. The reason for why two lenders would not accept this idea is that the accounting information would still not be trustworthy. Another lender thinks that it could not be possible because the information demanded for granting a loan differs from one company to another, and while the cash flow may be sufficient for one company, it may not be for another. Another says definitely no, since the relations in the balance sheet, such as the changes of the owner's capital, also have to be studied.

The lenders wishes for when to receive the accounting information differ from every third month to once a year. All banks work with lines of credits, meaning that a company that is granted a loan receives it in different time periods, and between the payments it has to prove that it is still creditworthy. Therefore, the wish for financial information goes hand in hand with the time periods for the line of credit. Three banks are satisfied with once a year to revise the lines of credit. However, one of them would in a perfect world want to have it at least every third month. Two banks need it every sixth month. One micro creditor wants it every third month since there are many rapid changes in the market and another every six month. According to the three lenders that want it every six month, it is the regulations that require this in order for the lenders to have control over their clients. The inconsistencies in the answers may however partially depend on the fact that some interviewees refer to elaborated accounting information, such as in an annual report, while others refer to financial information in general.

4.2 The state

The authors have identified two possible purposes for the state to demand accounting information; for tax purposes and for collection of economic life statistics from the accounting information. Below the results from the interview with Ruddy Ampuero (May 4, 2004) regarding these issues are presented.

4.2.1 Tax connection

Project 205 is firstly aiming for a consistent and well-structured accounting system to make possible the introduction of a standardised chart of accounts that in the prolongation will encourage the activity on the financial market, mainly on the stock market. Consequently, any considerations regarding a possible future change of the current tax connection have not yet been considered and cannot be answered further in this thesis, but assumptions can be made that the current tax connection will not change in the nearby time. The SIN however demands a presentation of the VAT balance each month as mentioned in section 1.2.2.

4.2.2 Statistics

The idea in Project 205 to use the accounting for statistics collected by INE could give companies reasons for having to disclose certain types of information other than that which is legally required today. For instance, there could be a need to specify sales on different time periods, products or groups of clients. According to Ampuero there is at present an evaluation of the feasibility of another project between SIDA and INE, aiming for the development of economic life statistics collection. However, since this project has still not been approved, it is not that detailed yet and was not available to the authors, why in this thesis it cannot be determined what accounting information this possible user will need.

5 Empiric Study: Research Question Two – Prerequisites To Account

In chapter five, the authors present the gathered information concerning the second research question, which was: "What are the prerequisites for the Bolivian small and medium sized companies for presenting the accounting information demanded by the external users?" The broad word prerequisites was, in turn, narrowed down to several more specific factors in chapter three, which were; structure of the Bolivian economic life, level of technology, general education level, level of accounting knowledge among the producers of accounting information, the profession of auditors and accountants and societal values and values of accounting. The result of the empiric study regarding these factors is described in this chapter.

5.1 Structure of the Bolivian economic life

In chapter three, this factor was divided into several sub-factors, which have been investigated. The sub-factors were:

- type of industry / sector in the Bolivian economic life
- structure of the Bolivian economic life according to company size
- the existence of formal and informal businesses
- location of companies / urbanisation
- the corporate financing system

Of the total GDP in Bolivia in 2002, 14.6 per cent was produced in the agricultural sector, 33.3 per cent in the industrial sector and 52.1 per cent in the service sector (<http://devdata.worldbank.org>, 1.). Thus, Bolivia has a rather large agricultural sector in comparison to western countries, such as Sweden, where that sector constitutes only 2 per cent of the GDP (www.nationmaster.com, 2.). Concerning the Bolivian industry sector, the country has had a traditional production of minerals, i.e. mining, but other than that, the industry sector is still rather incipient (www.ine.gov.bo, 1.). Also the mining industry has been largely reduced during the past ten years due to lowered world prices of commodities (SIDA, Department for Latin America, 2003), in addition to internal politics that do not favour external investments. However, recent discoveries of large quantities of gas may revive the industrial sector (Bruce, La Razón May 26, 2004; La Prensa, May 21, 2004).

Regarding the structure of the economic life in Bolivia, micro, small and medium sized companies constitute the larger part of the economy, and are hence very important for the country, while larger companies are rather rare. The Bolivian company structure according to size, based on a survey performed by INE in 1992 (Antequera, undated), is displayed in figure 5. The additional 300,000 micro business marked with an asterisk are estimations based on household questionnaires. Figures from 1999 in the same document (Antequera, undated) imply that this structure is still more or less unchanged.

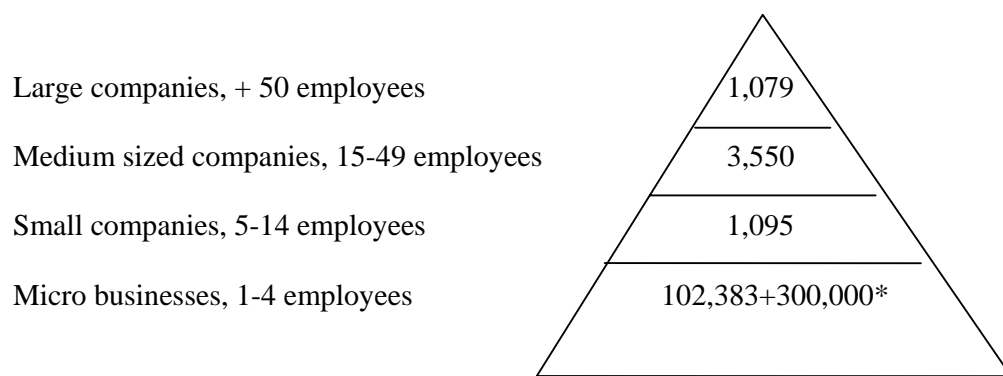


Figure 5: The company structure in Bolivia according to size (Antequera, undated)

The size of the informal sector is very difficult to estimate since these companies are not registered. Due to this, the oral information the authors have been given concerning this issue varies a lot. The figures estimated by the interviewees vary between 40 and 80 per cent. Most likely it is somewhere in between, and the World Bank and Nationmaster state that 67.1% of the Bolivian Gross National Income (GNI)³ is informal (<http://rru.worldbank.org>, 2.; www.nationmaster.com, 1.), which according to Nationmaster positions Bolivia as the second most informal country of all. Even though it is impossible to provide an exact percentage the authors can however conclude that the informal sector in Bolivia is enormous comparing to western standards, which is displayed in table 2:

Table 2: Comparison of informality as percentage of GNI (www.nationmaster.com, 3.)

Country	Informality (%)
Sweden	19.1
Germany	16.3
France	15.3
Japan	11.3
USA	8.8
Bolivia	67.1

The word informal sector in part include pure illegal activities such as drug trafficking, illegal gambling, sales of stolen goods, and these activities naturally exist also in Bolivia. However, the informal sector in Bolivia is mainly composed by poor people that are struggling for survival on businesses such as handicraft, small shops, street sales and transportation, and that cannot afford to pay tax on their scarce incomes (Jiménes et al, 2001). In the larger cities, the authors met street vendors everywhere on a daily basis. In addition to the unregistered firms, there are also companies that are registered but that pay too little tax. There are for instance a number of large companies that claim to be smaller than they are, and thereby enter the simplified tax regime to avoid taxation (Ampuero, SIDA, May 4, 2004; Barea y Vargas, May 19, 2004). Another part of the Bolivian informal sector is made out by the many small-scale cultivators, who use their products to provide the family with food or exchange it for other goods. This is naturally legal as long as they do not sell their products in exchange for money without declaring the income (Marca, CIOEC, May 26, 2004). Thus, the informal activity in

³ GNI, or GNP (Gross National Product), is the total value of final goods and services produced in a year by domestically owned factors of production (www.wordiq.com 2.)

Bolivia is of both legal and illegal kind, and some have natural reasons while others are intentionally informal.

The main reason for acting in the informal sector is the poverty, which has led to a deeply rooted unwillingness to pay tax (Mendoza, UMSA, May 28, 2004). In addition, the complicated process of registering the business is an obstacle to formality and many of the companies in the informal sector cannot manage nor afford the rather complex and expensive process of registering the business (Jiménez et al, 2001). Even though there was recently a small reform in the registering process that made it faster, the cost is still too high for many business persons (Ampuero, SIDA, May 4, 2004). In addition, bribes are common in the process (Svensson, SIDA, Feb, 6, 2004). According to “The cost of doing business” created by the World Bank, which measures the challenge of launching a company in different countries, it requires 59 days on average to register a company in Bolivia with its 15 steps to go through (<http://rru.worldbank.org>, 2.). Whatever reasons, the informal sector is a large problem for the country, since huge potential tax incomes for the state are lost.

There is an increasing urbanisation in Bolivia and approximately 64 per cent of the population live in urban areas (<http://www.ine.gov.bo>, 3.). More and more Bolivians are moving to the cities due to that many of them cannot earn a living in the rural areas anymore. These are often poor people who are amongst those who live on less than one dollar per day (Atkinson, The Llama Express, No.15, April, 2004). Subsequently, they cannot afford to register a potential business and pay tax, for why the informality may increase if the urbanisation will continue.

Regarding the corporate financing structure, the financial market in Bolivia is, as mentioned earlier, very ineffective and there is a general mistrust of the financial sector (Nueva Economía, August 2003). Due to the fear of investing the value of the stocks listed on the stock exchange have not changed since the 31st of March 2004 until the 21st of May 2004 (La Prensa, May 21, 2004), implying that there is hardly any action on the stock market. Thus, for a company to finance its operations it has to rely on their own resources or apply for bank loans since it is difficult to attract investors.

5.2 Level of technology

The level of technology includes the following sub-factors:

- supply of electricity
- supply of computers
- supply of accounting programs

After completing a reform of the Bolivian electricity sector it was deregulated and privatised in 1995 (www.eclac.cl) and today there are six distributors of electricity operating in the country (www.superele.gov.bo, 1.). However, the level of electrification in the whole country only reaches 64.4 per cent and the distribution of electricity is very uneven. In the urban areas the level of electrification amounts to 89.5 per cent, while in the rural areas the level is merely 24.7 per cent (www.superele.gov.bo, 2.). Hence, the coverage is very different in the nine departments in the country and some departments, for instance the region of La Paz have three generating companies and one supplier and an almost full covering net, while regions such as Santa Cruz and Tarija have much less coverage (www.superele.gov.bo, 3.). Furthermore, the authors visited some villages in the department of Potosí where the

population only had access to electricity during two hours every evening when the dark falls. Probably very few people in those areas would consider it worthwhile to install a computer, which makes the usage of accounting programmes impossible. Thus, in general, cities and large villages have a rather good access to electricity, while smaller villages do not. However, because of the large rifts in wealth, also in the cities, many business people, such as street salespersons, do not have access to electricity since they cannot afford it.

Regarding the supply of computers in Bolivia there were in 2002 on average 22.8 computers in use of 1,000 persons (<http://devdata.worldbank.org>, 1.). Hence, about 2.3 per cent of the Bolivian population owns a computer, in comparison to Sweden where 75 per cent have access to a computer at home (www.statskontoret.se). In companies of smaller size the machinery and equipment are often obsolete or of low technological level. In addition, new machinery, equipment and spare parts are in general expensive and hard to find in stock (Antequera, undated).

According to Project 205 the accounting programmes on the market today are very expensive and most small and medium sized companies would not afford them (CAINCO 2003), but according to Barea and Vargas (May 19, 2004) the supply on the market is increasing. Moreover, there are organisations such as CIOEC that provide access to computers along with education to its members. Today many of the members of CIOEC have learnt the basics about computers and the Internet, most of them however, would not know how to use an accounting programme (Marca, CIOEC, May 26, 2004).

5.3 General education level

The general education level, described in chapter three, involved three sub-factors, which were:

- primary and secondary schooling, officially and in reality
- illiteracy
- language skills

Officially, Bolivia has a compulsory education of eight years, which constitutes the primary education where children start school at the age of six and graduate at thirteen (<http://esa.un.org>). However, according to the latest statistics (2001) the average years of schooling is in reality only 5.6 years (www.nationmaster.com, 4. and <http://devdata.worldbank.org>, 3.). There are also two more levels of education; secondary school, which has four grades, and superior school, i.e. Universities and other post graduate schools (www.unesco.cl). According to statistics, on a national level 71.5 per cent of the population finish primary school, i.e. compulsory school, and only 48.4 per cent finish the fourth grade in secondary school. Yet, the schooling varies a lot among the different departments in the country (www.minedu.gov.bo). Marca at CIOEC (May 26, 2004), approximates that on the county side many students finish their studies when they are eight or nine years, or even earlier. Business leaders in the agriculture sector however, tend to have some more years of schooling.

The reasons for the low average of students completing the compulsory school are various, but the main problem is the poverty. Many children, even those below school age, have to work in order to support their families and some begin selling sweets on the streets as soon as they are able to walk. There are also a lot of students that work when they are not in school.

One of many shoe shine boys on *El Prado* (the avenue) in La Paz explained that he works half day shining shoes and goes to school in the evening, which obviously may have negative affects on the learning. Besides, the quality of the teaching is rather bad due to inappropriate and inefficient management in the schools, weak administration structure, deficiencies in infrastructure, inadequate supply of books, etc. There is in addition insufficient allocation of resources to primary education since a rather low share of public expenditure is devoted to education. Even though the government spending on education has increased during the 1990's only 4.5 per cent of the GDP is devoted to educational matters (LCSHD, World Bank, 1998).

The lack of proper education primarily affects the rural and indigenous population; however, the Bolivian government have undertaken an educational reform, supported by the World Bank with the intention of improving the quality and coverage of the schools, mainly in the primary education. The Law of Educational Reform was approved in 1994 and it concentrates on equality among the Bolivian population, e.g. a bilingual program should ensure that students could be taught in their native language (www.congreso.gov.bo). However, according to Stenberg (2002), who has done a research on educational investments in Bolivia, there is a shortage of teachers that have the necessary skills to teach in the local language and Spanish is still dominating in the schools. Furthermore, improving the educational system requires more resources devoted to education and Stenberg also concludes that still there are several barriers to invest in education in the country.

By concluding that there is a lot to improve regarding the educational system it may not come as a surprise that the illiteracy rate is rather high in Bolivia. Even though it has decreased somewhat during the last ten years, 12.8 per cent of the population (15 years and over) cannot read nor write and the difference between sexes is large. While the illiteracy rate among males is 6.9 per cent it is 18.4 per cent among the female population (www.cia.gov). However, these figures represent the population on a national level and in rural areas the illiteracy is much more widespread. According to Marca at CIOEC (May 26 , 2004) about 50 per cent of the population in the agricultural society cannot read.

As mentioned earlier, Bolivia has a great variety of people and languages where the three largest ones are Spanish, Quechua and Aymara. The distribution according to mother tongue is described in table 3:

Table 3: Distribution of population in percentage according to location and mother tongue, 2000, (www.ine.gov.bo, 3.)

Mother tongue	total (%)	urban areas(%)	rural areas (%)
Quechua	19.8	8.2	40.7
Aymara	11.0	7.4	7.4
Spanish	62.6	78.7	34.4
Other	6.6	5.7	7.5

The Spanish speaking population is in majority, especially in the urban areas. Nevertheless, on the country side there are more people that have Quechua as their first language, and there is also a considerable part of the population that speaks Aymara as their mother tongue. However, 90 per cent of the population on the country side speak and understand Spanish, even though many of them cannot read (Marca, CIOEC, May 26, 2004).

Although these three languages have official status, the balance of the languages is very uneven. A good example of the inequality is that all signs in Bolivia are written in Spanish, and the authors have barely seen Quechua or Aymara written anywhere. In addition, the language used in public texts such as laws is solely Spanish (Marca, CIOEC, May 26, 2004). The inequality among these languages is however partly due to that Quechua and Aymara have not been written languages for such a long time. Thus, Spanish is dominating in public administration and education. Hence, in order to read and understand the law, and subsequently to know how to use accounting, it is necessary to be able to read Spanish.

5.4 Level of accounting knowledge among the producers of accounting information

The factor presented in this section includes the following sub-factors:

- how many companies do account
- level of knowledge concerning economy and accounting among small and medium sized companies
- how many of the companies that do account demand external assistance
- university education
- economic and accounting education for adults

Micro creditors, which work with micro, small and medium sized companies on a daily basis, have stated that most of these companies do not have any formal accounting at all. Banks, that also deal with small and medium sized companies, though not as much as micro creditors, state that in their experience the accounting of formal small and medium sized companies is generally bad, while informal companies cannot provide any formal accounting information at all. Hence, the majority of the small and medium sized companies do not account and those who do, do it badly.

Chavez at Idepro (May 28, 2004) states that, in general, people working in small and medium sized companies have solely a basic level of schooling. Furthermore, the majority of the Bolivian companies, regardless of size, are run with logic of family negotiation (Antequera, undated). This implies that the general characteristic of the management is that it is realised in an empiric and intuitive way since the managers often lack education and formation enough to introduce techniques and tools of professional management. Nevertheless, they possess a certain empirical knowledge of the economy as a whole and especially in the area of their businesses. Thus, due to experience, small and medium sized companies have a certain level of knowledge in their field of business; however, they do not in general possess theoretical or technical knowledge regarding economics or accounting, and therefore they cannot provide advanced accounting information (Antequera, Idepro, June 2, 2004; Antequera, undated; Chavez, Idepro, May 28, 2004). What they do have are simpler registers such as accounts receivables, sales, etc, but the smallest informal businesses do not even have that (Chavez, Idepro, May 28, 2004). The same image is given by Barea and Vargas (May 19, 2004) who claim that many small and medium sized companies are craftsmen that produce on a small scale, and that in some cases may be able to present simple accounting information such as a sales ledger, but in general they lack of sufficient knowledge required to account.

Those formal small and medium sized companies that account, do it because they have to, either for taxation purposes, or if it is demanded by another user. The majority of the small and medium sized companies have not learnt to use the accounting for management purposes

(Antequera, Idepro, June 2, 2004; Barea and Vargas, May 19, 2004; Marca, CIOEC, May 26, 2004).

Furthermore, those small and medium sized companies that account are practically forced to employ external accountants to help them because of the relatively complicated accounting regulations (Barea and Vargas, May 19, 2004; CAINCO, 2003; Chavez, Idepro, May 28, 2004; Handell, Ekonomitolken, Feb. 6, 2004). Among the members of CIOEC the larger companies and the mother company in a cooperation or group of companies know how to account and they also have their own accounting departments. However, also these companies need help from external accountants with the annual statement of accounts because of the complicated accounting regulations (Marca, CIOEC, May 26, 2004).

The problems in primary and secondary school have already been discussed, but there are also many problems to be solved in the Bolivian Universities. There are both public and private Universities in the country and although the number of students registered at the Universities has increased steadily during the late 1990's, the vast majority of the Bolivian people do not have the opportunity to go to University. It costs money to attend the University, a small fee in the public University and large fees in the private ones, which many Bolivians cannot afford. In 2000 there were 212,594 University students registered (www.ine.gov.bo, 2.) which is about half of the number of Swedish students (www.scb.se) while both countries have approximately the same number of inhabitants. However, 80 per cent of the Bolivian students were located in the four major cities; La Paz (67,349), Cochabamba (42,343), Santa Cruz (37,651) and Chuquisaca (22,614) (www.ine.gov.bo, 2.). This implies that the supply of University education is rather uneven in the different departments in the country.

As in the primary and secondary level of schooling, there is a problem with insufficient usage of resources also at university level (LCSHD, World Bank, 1998). Furthermore, the quality of the education is rather low according to H.C.F. Mansilla, reporter for the newspaper La Prensa (May 9, 2004) who states that the Bolivian Universities are institutions which teach memorizing and tricking, and not many students dedicate to analytical thinking and to acquire practical knowledge of scientific investigation. According to the article, the students consider that the best strategy to succeed in the studies is to satisfy the lecturer, and therefore try to find out what he or she wants to hear instead of reading the books and trying to understand the subject.

Moreover, only 4.4 per cent of the students graduate from the Bolivian Universities and in addition, for those who do, on average it requires nine years to graduate from a five-year degree. The problems continue even after graduating. Only ten percent of the graduates walk straight from tertiary education to a qualified job for which they have studied. Thus, there are not only problems within the University system but in addition, there is a lack of graduate jobs and an overqualified work force. Another problem is that employers prefer students from private Universities rather than public ones, even though it is necessary to do an exam to enter the public while you, at the private Universities, pay your way in, and the quality of education is in general perceived as better in the public Universities. This is a way to keep the old class system where rich people of European-decent get the well-paid jobs (Thorner, The Llama Express, No.15, April, 2004).

Concerning accounting studies, you study three years in order to graduate as accountant, while auditing requires five years of study. However, you do not need to work before

practising as an auditor as in Sweden, although many of the students work at the same time as studying and some within the field of accounting (Mendoza, UMSA, May 28, 2004).

For business people already working, it is however not necessarily a University education that is the most appealing way to learn about accounting, since it demands both much time and money, even though the possibility exist to attend the University also in the evening (Mendoza, May 28, 2004). The University is in fact the only public education institute for adults even though there are organisations and NGOs such as CIOEC and Idepro that provide further education for business persons in themes regarding economy (Antequera, Idepro, June 2, 2004; Marca, CIOEC, May 26, 2004). These courses for adults are very important since the Bolivian state does not provide much basic education for adults other than at the Universities for those who can afford it (Mendoza, UMSA, May 28, 2004) and in addition they also capture the urban areas (Antequera, Idepro, June 2, 2004; Marca, CIOEC, May 26, 2004). Hence, in these organisations actions are taken to help the member companies to understand accounting and above all to understand why and how to use it for internal purposes (Marca, CIOEC, May 26, 2004). According to Marca at CIOEC (May 26, 2004) and Mendoza at UMSA (May 28, 2004), there are however ideas and attempts on behalf of the state to start education for adults other than in the University, and there are also companies and organisations that have ideas concerning education on the Internet or on distance. However, this far it is merely ideas and not much has happened yet.

5.5 The profession of auditors and accountants

In chapter three, this factor was divided into two sub-factors. The sub-factors were:

- reliability and trustworthiness of the accountants and auditors
- are there enough auditors and accountants for a possible increase in demand for their services

The accounting profession in Bolivia can unfortunately not be considered very important depending on both the sparse demand for accounting and auditing services and on the society's attitudes towards accountants and auditors. The reasons for the sparse demand are several, and one is that only the so called large contributors need audit of accounts. Another reason is that a large part of the economy works in the informal sector in which the actors do not account.

Concerning the trustworthiness of the auditors and accountants there are a few large firms that are well known, and very expensive to hire, that most interviewees consider reliable. However, except for these firms the general perception of auditors is that they are not independent or trustworthy since they often accept the "double accounting". Furthermore, the Bolivian Association of Auditors has been suspended from the accounting profession's global organisation, i.e. the International Federation of Accountants (IFAC), which obviously does not add credibility to the Bolivian auditors. The "double accounting" is an action taken by the accountants, reason for why they also are perceived as unreliable. The unreliability of the auditors and the accountants does in turn affect the perceived value of financial statements.

In the case of an increased demand for accounting services, which would be the case if Project 205 should succeed in decreasing the informal sector, Barea and Vargas (May 19, 2004) believe there would be enough auditors and accountants since the demand would create

greater work opportunities for professionals. In fact, it would be good for the Bolivian economy since educated persons could find appropriate jobs.

5.6 Societal values and values of accounting

This factor has been divided into the following sub-factors:

- willingness to account among small and medium sized companies
- attitudes towards accounting and displaying private information among small and medium sized companies
- attitudes towards societal changes

In general, Bolivian small and medium sized companies are not that willing to account and they are not very open about their financial information (CAINCO 2003; Fernandez, Banco Unión S.A., May 27, 2004; Jauregui, Banco Mercantil S.A. May 21, 2004). Further more, they do not feel any need to account since it is more of an obligatory requirement than a tool for management and organisation (Antequera, Idepro May 28, 2004; Barea and Vargas, May 19, 2004) and as mentioned earlier, those who actually wish to account do not possess the knowledge to do it. Thus, the lack of willingness and knowledge makes the mentality of accounting weak.

Furthermore, according to several interviewees, most small and medium sized companies, and also many large companies, fabricate the accounting with the intention of paying less tax, if they choose to account at all. Thus, there is a disrespectful attitude towards accounting where there is more common to cheat than to do it properly. However, among some medium sized companies there has been a recent change in attitudes concerning organisation and management. (Antequera, undated; Chavez, Idepro, May 28, 2004). Marca at CIOEC (May 26, 2004) has also noticed a change of opinion among the members of their organisation where the members have begun to understand and learnt how to make use of accounting for internal purposes, after educational efforts within the organisation. Barea and Vargas (May 19, 2004) have also noticed a slight change towards an understanding of accounting among companies that negotiate with other countries, since this is usually a requisite for the negotiation to come through.

In general, the Bolivians are very dissatisfied politically, which results in an unstable political situation, of which the history can witness. Since the independence was proclaimed in 1825, there have been 188 state coupes and more than 60 different presidents have ruled the country (Casa de la Libertad, Sucre, June 12, 2004). The last president forced to resign was Sanchez de Lozada who resigned from the presidency in October 2003 due to violent protests where more than 30 people were killed. The main reason for the protests was the president's decision to export natural gas through Chile, a country that many Bolivians resent after losing their last coastline to Chile in 1884 during the war of the pacific (The Llama Express No. 15, April, 2004).

The measures used by many Bolivians to express their disappointment with the government, are actions such as demonstrations and roadblocks. In fact, according to La Razón (July 6, 2004) there has evolved a "roadblock culture" in Bolivia, where different social groups use roadblocks, strikes and demonstrations, to oppose anything that is perceived as negative. During the author's stay in Bolivia there were always roadblocks somewhere in the country and demonstrations were organised almost on a daily basis in the city of La Paz. In May there

were even students protesting in the city of El Alto against the demonstrations in La Paz. These constant reactions, sprung from the miserable situation that many persons live in, make societal changes, such as the implementation of new laws, difficult.

6 Result and Analysis

In chapter six, the appropriate level of disclosure for Bolivian small and medium sized companies is discussed in several steps. The empiric studies of research question one and two are compiled, in order to answer research question three. Last in the chapter follows a discussion of possible measures and advice in order for the government to obtain a useful accounting system for the small and medium sized companies in Bolivia and for the users of the accounting information.

6.1 What is an appropriate level of mandatory disclosure of accounting information for small and medium sized companies in Bolivia?

The appropriate level of disclosure is discussed below in four sections. Firstly, the empiric studies are compiled, and the users demand for accounting information is compared to the producers' prerequisites to supply it. Thereafter, it is discussed whether or not regulating the accounting for small and medium sized companies is worthwhile, taking into consideration the potential benefits and costs. After that, the discussion is narrowed down to deal with differential disclosure, before ultimately going into details of what reports that should make out the appropriate level of mandatory disclosure.

6.1.1 Compilation of the empiric studies - "mind the gap"

In the empiric study of research question one, it has been shown that the users "the lenders" use sophisticated methods and advanced accounting information to evaluate creditworthiness, even though they mostly elaborate the information themselves from whatever financial information and other they can obtain from the loan soliciting company. The lender in general consider accounting information important in comparison to other information, even though additional information, to support the accounting information, is a requisite because of the low quality and credibility in the accounting information. Generalising, the income statement, the cash flow statement and the balance sheet are considered the most important financial statements, while notes, additional information in the report, the administrative report, the managements discussion and the auditors report in general are not of much importance for a loan decision.

Additionally, all lenders interviewed consider that standardised accounting procedures that make the accounting information uniform among companies would be helpful. It would simplify for the lenders in the evaluation of creditworthiness, and since the process of granting a loan would be faster it would benefit both the lenders and the loan soliciting company. The lenders also believe that standardised and transparent accounting procedures would facilitate the accounting for the companies in comparison to the present regulations.

In Bolivia there is a strong tax connection and hence, the user "the state" demands accounting information as basis for the taxation, in order to ensure that companies pay an accurate amount of tax in relation to their profits. For this purpose, companies today present simplified financial statements, and most important is the income statement, since this is where the result is determined. The idea of utilising the accounting for statistics has also been raised, but INE has this far not worked out any details, as mentioned in section 4.2.2. Thus, at present, this

usage cannot be a basis for the discussions in this thesis. Moreover, the SIN demand accounting information of most companies in form of a monthly presentation of the VAT balance in a Book of Purchases and Sales as mentioned in section 1.2.2. This issue however, already have been solved through the distribution of free software to those concerned, however, it presupposes that companies have access to computers and knowledge to use the software.

As shown in chapter five, the prerequisites for Bolivian small and medium sized companies to account are bad, and there are many barriers to overcome. The economy mainly consists of micro, small and medium sized companies, many of which act in the enormous informal sector. In addition, a lot of people in the rather large agricultural sector can no longer survive as cultivators, thing that has made the urbanisation apparent. The ones that are moving to the cities are poor people that probably cannot afford to register a business or paying tax, reason for why the informality may increase. Actors in the informal sector mainly do business in order to survive since their businesses rarely provide large profits and even though they sometimes are able to present some sort of register of their businesses they cannot account properly since they lack of the technical and theoretical knowledge to do it.

The majority of the formal small and medium sized companies are run by logic of family negotiation and in general they do not produce any formal accounting, as in the case of informal businesses. Those who actually account do it for taxation purposes or if it is demanded by another user and accounting is not used as a tool for internal management. The accounting presented is often inconsistent and unreliable because of faults and because of deliberate distortions in order to pay less tax.

As acknowledged in chapter five, Bolivian companies are not very willing to account. Additionally, neither the accountants nor the auditors are considered very reliable and accounting in general is not of much value in Bolivia, thing that may in turn negatively affect companies' willingness to account since they cannot see the benefits of it. However, a slight positive change in attitudes towards accounting among the small and medium sized companies has been noticed and this is a small step in the right direction.

Many Bolivian students do not even finish primary school, and very few people have the opportunity to attend the University. Among those who actually make it to the University, few of them graduate. The educational reform may improve the education system in the long run but there are still numerous problems to be solved. Due to the low attendance and bad quality of education, the illiteracy rate is high and logically, people that cannot read cannot account. The problems with education and illiteracy are most apparent on the countryside where there also are several other barriers to overcome. Most of the indigenous population live in rural areas, and they often have Spanish only as second language, and sometimes do not even speak or understand it. These people obviously have a harder time to understand accounting regulations since the Bolivian law only is written in Spanish, in spite of that Quechua and Aymara also are official languages.

The electrification is very uneven in the country, and especially on the countryside the coverage is sparse, which makes the use of computers and accounting programmes difficult. Even if small and medium sized companies would have better access to computers, the accounting programs are very expensive and not many companies can afford it. In addition, not many business persons have experience in using accounting programmes.

Consequently, the authors conclude that there is a large gap between the users' demand for accounting information and the prerequisites for Bolivian small and medium sized companies to supply the demanded information. These companies simply cannot provide the users with the accounting information that is demanded. Thus, it is of great importance to keep this gap in mind when finding an appropriate level of disclosure. However, before discussing what would be an appropriate level of disclosure, firstly the worthwhileness of regulating the Bolivian accounting for small and medium sized companies will be discussed, taking into consideration the benefits and costs to do so.

6.1.2 Is it worthwhile to regulate the accounting for Bolivian small and medium sized companies?

As mentioned in chapter two, in the free-market approach the market forces, and not accounting regulations, determine the supply of accounting information. Bolivian small and medium sized companies can be considered to practically follow the free-market approach, since they in general are not following the accounting regulations, and there is furthermore no outside control of their accounting. Instead, companies account when they feel a need for it and provide information in whatever shape and amount that may be needed for the occasion. However, Bolivia is an excellent example of where the argument of market failure, the classic argument for those opposing to the free market approach, is apparent. Bolivian companies fail to supply the optimal amount of information with the optimal quality. Moreover, the monopolistic influence over the accounting information on behalf of the management in Bolivian companies certainly complicates for the users since they cannot be certain that the information provided is true. This is most obvious in the widespread use of the illegal "double accounting", with the intention of paying less tax. Due to the market failure, regulation may be necessary; nevertheless, this implies a cost that has to be weighted against the benefits, since the total benefits of accounting should exceed the total costs to be worthwhile.

Accounting regulations imply a standardisation of the information to a more or less extent, and the standard, if being followed, assures a certain level of content and quality of the information. However, if the accounting regulations were to be followed by the Bolivian small and medium sized companies it would imply a large cost for the companies, especially since the regulations of today are complicated and not adjusted to their needs. An option that would somewhat diminish the production cost for the companies would be differential disclosure regulations, implying that regulations which simplify the accounting for the small and medium sized companies were to be developed and maintained. This would instead be a cost taken by the government. Yet, it would not necessarily be an additional cost since a part of it would be a transfer cost taken by the government instead of the small and medium sized companies. Still, even with simpler accounting rules for small and medium sized companies, regulation, if followed properly, would increase their costs even though the government would bear a part of it.

Accounting regulations, implying standardisation, moreover means that the collection of information would become both easier and cheaper for the users. Today the lenders themselves have to collect, compile and interpret accounting information from loan soliciting companies. With regulations that obligate the small and medium sized companies to account, the companies themselves would instead be the ones producing the accounting information. Subsequently, followed accounting regulations would imply a transfer of costs from the lenders to the companies.

Standardised and reliable accounting information would not solely benefit the lenders but also the producers since their chances to be granted bank loans would be greater. It would take less time to evaluate every loan soliciting company, and reliable accounting information would decrease the uncertainty for the lenders when evaluating companies, which could lead to lower safety margins and lower interest rates. Better opportunities to achieve capital may furthermore increase the investments among small and medium sized companies.

Accounting regulations, if being followed, could also result in other potential benefits. In Bolivia, the tax rules are used for financial reporting and one of the most important purposes of producing accounting information is as basis for taxation. Hence, there is a strong tax connection in the accounting, which implies a greater benefit for the tax authorities. However, due to the infamous “double accounting” among Bolivian companies, this benefit for the SIN is in reality not experienced. Thus, with accounting regulations that were being followed, more taxes would be paid, implying a large potential benefit for the country.

In the long run, smoother negotiations between users and small and medium sized companies because of standardised and reliable accounting information, potentially increased investments and increased tax incomes may lead to a better capital allocation. This may in time increase the growth in the Bolivian economic life, which has been recognised by SIDA and by the Bolivian government, as an important tool for poverty reduction and development, as mentioned in section 1.2.1. Hence, accounting regulations involving differential disclosure regulations for small and medium sized companies have the possibilities of reaching the same benefits as those projected in Project 205, involving a standardised chart of accounts.

Moreover, with differential disclosure regulations, implying an accounting that can be understandable for the managers of small and medium sized companies, the accounting, through its internal use, could help managers increase their basic knowledge of economic issues and of management. This is a potential benefit for both the companies as well as for the economy since it also could enhance the chances for growth in Bolivia, a country where today most business people sell to survive the day.

If more companies were to account due to a decrease of the informal sector it would also increase the demand for qualified working force and create work opportunities for professionals. This would be positive since it is difficult for graduates to find appropriate jobs, as mentioned earlier in section 5.4.

Ultimately, since there is no organisation that sees to that the companies follow the regulations, better control measures would be needed to assure that the regulations are being followed, and this would imply another large cost for the government. If no measures of control would be applied, it is probable that any changes to improve the accounting system would be money wasted for nothing. Hence, the costs and benefits of regulation are various as mentioned, and these are summarised in table 4:

Table 4: The benefits and costs of accounting regulations for small and medium sized companies in Bolivia

	Potential Benefits	Costs
Macro level	<ul style="list-style-type: none"> • Increased tax revenues • Increased investments • Better capital allocation • Growth in the Bolivian economic life • More qualified job opportunities 	<ul style="list-style-type: none"> • Development and maintenance of differential disclosure regulations • Increased control of fulfilment of legal requirements among small and medium sized companies
Micro level	<ul style="list-style-type: none"> • Increased utility of accounting information for external users because of an increase in quantity and improved quality • Decreased costs for the lenders in the evaluation of creditworthiness • Lower safety margins and lower interest rates • Increased opportunities of financing small and medium sized companies' activities • Increased understanding of management 	<ul style="list-style-type: none"> • Increased production cost for the small and medium sized companies

It needs to be mentioned again that the accounting system is a part of a country's infrastructure and therefore a requisite for obtaining a functioning economic and financial system in the country. Altogether, the authors believe that the benefits in the end will outweigh the costs, and thus, it would be worthwhile to regulate the accounting for Bolivian small and medium sized companies, particularly since these companies make out such a large part of the Bolivian economy. Nevertheless, it is not merely a question of whether to regulate or not since there are several levels of disclosure to choose from. If differential disclosure is to be applied, the financial information to be disclosed has to be selected. The next sections deal with these questions from the perspective of the investigated users' demand and the producers' prerequisites to account.

6.1.3 Differential disclosure

At present, Bolivian small and medium sized companies have to present the same amount of accounting information as larger companies, which implies that these companies cannot manage to present the information required by law. Smaller companies often argue for differential disclosure because they consider ordinary disclosure rules too demanding for their level of resources. In the case of Bolivia, small and medium sized companies lack of financial resources as well as of knowledge and at the same time other factors worsen their prerequisites to account, as made known in chapter five. Therefore, the authors think that differential disclosure would be positive for Bolivian small and medium sized companies. Differential disclosure regulations that are determined by the users' demand and the producers prerequisites, at the same time as the "overarching limit", i.e. the benefits exceeding the costs, is considered, would furthermore correspond to an *adequate level of disclosure*. An adequate

level of disclosure implies that a minimum amount of information is disclosed in order to allow the users to make sound decision from accounting information that is not misleading.

The idea of differential disclosure regulations for Bolivian small and medium sized companies has been positively received by most interviewees. For instance, all lenders, except one, and most interviewees with special knowledge regarding small and medium sized companies' prerequisites, agree to the idea that with a standardised and transparent accounting system, the legal requirements of accounting information for small and medium sized companies could be less demanding than they are today. Antequera at Idepro (June 2, 2004), adds that being a business person in Bolivia is already difficult because of all administrative formalities and if these companies will be "forced" to account as well, the chances are great that the informality will increase. Hence, the accounting regulations have to be simpler, and if this can be accomplished, Antequera (June 2, 2004) perceives the idea as interesting from the perspective that it may increase the transparency and comparability of the companies' information. The option of letting the present accounting regulations remain, but with better outside control, would most probably lead to increased informality.

An alternative to differential disclosure could be a system like the one used in the US, in which companies choose to account only when they feel the necessity for it. If they for some reason choose to do it, they however have to follow the same rules as every other company, since it would be too expensive to develop differential accounting regulations to be used on a voluntary basis. This type of system would save money for the Bolivian government since it would not have to develop different rules for different companies. Nevertheless, several benefits would be lost as well. Most likely the accounting would more or less remain as it is today, with companies avoiding to pay tax, small chances for obtaining external capital, and the understanding of an internal use of accounting would never be accomplished. Thus, this type of system would most likely not provide the necessary push in order for the Bolivian economy to grow, as differential disclosure regulations could.

Another potential solution would be to adopt those differential accounting standards that the EU has requested the IASB to develop as mentioned in section 2.1.4., since this would save many costs for the Bolivian government. Hence, if the option of applying differential accounting regulations from IASB would be offered, this would be a good and cheap solution, which would correspond to the adoption of international accounting standards strategy described in section 2.5.3. However, it may have the disadvantage of misspecification of costs because of ignorance of country specific accounting needs and furthermore, IASB has not yet taken the decision whether to go through with this request or not. The option that Bolivia itself develops differential disclosure regulations would be more resource demanding but would on the other hand take into consideration country specific accounting needs. This would correspond to Riahi-Belkaoui's situationist strategy described in section 2.5.4.

If differential disclosure for small and medium sized companies is to be applied, in one way or another, which is suggested by the authors, the next step is to determine what reports are appropriate to legally require. The next section deals with this issue.

6.1.4 What reports should be provided?

As been concluded, there is a gap between the users' demand for accounting information from small and medium sized companies and these companies' prerequisites to supply it. It would therefore be wise to satisfy with less legal requirements of accounting information than those

financial statements that are required today, namely the income statement, the balance sheet, the cash flow statement, the statement of changes in equity and notes. However, still it would be necessary to require more information than what is being provided today, since this information is insufficient in quantity as well as in quality in order for the users to make sound decisions. Consequently, the regulation should request an amount of accounting information somewhere in the gap.

Lenders are one of the most important users of the accounting information and the authors have asked for their opinions on what accounting information that would be the minimum amount to demand for the evaluation of creditworthiness if it was supported by a standardised and transparent accounting system. The basic statements i.e. an income statement, a balance sheet and a cash flow analysis, is what most lenders would satisfy with as a minimum requisite, as long as the presented information was reliable, truthful and standardised. However, many lenders also demand additional company information, and especially the micro creditors demand social information.

The idea was also tried of whether or not a standardised and transparent accounting based merely on the cash flow statement for small and medium sized companies would be sufficient for the evaluation of creditworthiness. As explained in section 2.1.1, the cash flow statement shows the real flows in the company since it is based on real payments, and should therefore give a good indication of whether or not there will be money in the company to pay back the loan. In fact, the cash flow displays the result, as does the income statement, however, the cash flow does not take into account transactions that have not yet occurred, such as accounts receivables and accounts payable, but only the flows that have already occurred. Therefore, the cash flow could be a simple way for a company to provide some sort of accounting information, in lack of knowledge to produce advanced financial statements.

Five of the lenders think that it could be possible with cash flow accounting for small and medium sized companies assuming that additional information could be achieved for the creditworthiness decision, while the other four object. Those who object to the idea of cash flow accounting for small and medium sized companies argue that valuable facts needed in order to make a loan decision would be lost, such as information about assets and debts and about the result. Furthermore, it was doubted by some that a change in the accounting would really imply transparency, and a prerequisite for using any kind of standardised information builds on that the companies can really be trusted. The auditors Barea and Vargas (May 19, 2004) think the idea of a cash flow accounting is interesting in order to make things simpler for small and medium sized companies, but they also believe that too much valuable information would be lost. Instead, according to Barea and Vargas (May 19, 2004), small and medium sized companies should be encouraged to gradually learn to present the basic statements that are required by the present accounting standards, but not be required more than just the four basic statements and the notes.

Hence, cash flow accounting could perhaps be an option. However, considering the loss of important information that it would imply, and the step back for those actors who already produce and use formal accounting information, a better option would be to require a basic accounting, consisting of an income statement, a balance sheet and a cash flow statement, presented in the simplest possible way. A potential alternative could, however, be to require a cash flow statement complemented with a balance sheet since the former also can display the result, yet in a simpler way, as explained earlier.

Moreover, additional information such as historical data of the business and future goals could also be encouraged or required, since this would besides be an incentive for the companies to take these issues into account, which could motivate the managerial interest that is lacking in many companies today. Lenders would regardless have to complement with additional information, however, it would be a huge gain for them if they would not have to elaborate the basic financial statements as well, as they do today.

6.2 Possible measures and general advice for succeeding in changing the Bolivian accounting system for small and medium sized companies

As explained in section 2.4, there is a complex interaction between the accounting and several factors in the environment. Thus, a country's accounting system is influenced by these factors, and the accounting system in turn affects these factors. In order to conduct a successful change in the Bolivian accounting system and through that solve the country's accounting problems, the influencing factors also have to be considered. Thus, the Bolivian government may have to take actions in other areas in order for the new accounting system to function. It has been concluded that there is a large gap between the demand and supply of accounting information, and this gap needs to be decreased. The majority of the interviewed lenders have expressed their willingness to lower the demand for accounting information, given that it is supported by a standardised and trustworthy system. Thus, it all comes down to increasing the quality and reliability of the companies' accounting. For this to happen, the authors think there are mainly three things that need to be changed and improved. First and far most the *accounting knowledge* among small and medium sized companies has to be improved. Secondly, there is a need for *control* for the accounting regulation to be followed, and ultimately there is also a need for a *change in attitudes and values of accounting*.

6.2.1 Improved accounting knowledge

In order for the lenders to lower their demand, small and medium sized companies need to provide useful information. However, at present many of these companies do not account at all due to that they lack of knowledge, and therefore, education is of great importance. As mentioned earlier in this chapter it is not only a question of teaching these companies how to account technically, but also it is equally important that they understand why they need to account and most of all; how to make the accounting useful in the internal management.

The authors believe that while improvements in the primary level of education would be beneficial for the country as a whole it would not solve the fact that small and medium sized companies cannot account, since accounting is normally not taught in primary school. For this particular project, it would be better to focus on educating adults. Some organisations and NGOs, provide technical assistance and education to smaller companies. For instance, CIOEC has in fact already started to educate their members in accounting among other things, with positive results, since many of their members know understand more about how to use financial information in the management.

The authors think it would be wise for the state to cooperate with organisations such as NGO's that already have established contacts with many small and medium sized companies and that are familiar with their special needs. These organisations can also be very valuable in this project, because of their widespread geographical reach. Moreover, the illiteracy, which is

most common on the countryside, obviously constitutes a problem in the education process. NGO's and other business associations are however used to work with businesspersons with low levels of education and literacy, reason for why they may have an advantage over a governmental institute.

However, also state institutes would be to prefer since there is no public institute, other than the University, that provides education for adults. This education should preferably be free of charge since the authors doubt that people in small and medium sized companies neither can nor are willing to pay for it. Furthermore, information folders could be distributed to the companies explaining the basics of accounting and recommending them to attend an accounting course.

The lack of electricity and computers are further problems, which may impede the education process as well as small and medium sized companies' abilities to account. For those companies, that for some reason do not have access to computers or electricity for that matter, the authors think that educating them in how to account and how to use accounting for internal management should be prioritised, since still it is possible to account without computers. Computer studies and accounting programs could be a future step for those companies. Yet, if it is possible to teach small and medium sized companies accounting and at the same time how to use computers and accounting programs this should of course be done. There are in fact NGO's and other organisations that provide their members with access to computers and in these organisations it would be optimal to combine the accounting education with computer studies and the use of accounting programs.

For those companies that have access to computers, another possibility could be that lenders provide an accounting service on their web page for their clients for a fee. This opportunity exists for small companies in Sweden who have difficulties with accounting. Some banks offer an integrated system where the clients can use a package of services such as bank accounts, payment services, an accounting programme connected to its accounts, and a support service. At present, many Bolivian small and medium sized companies do not even have bank accounts and this so called "package" could be a way to motivate the use of banks, which would increase the total capital on the financial market. In addition, the banks could easily control that companies declare true figures in the accounting program that corresponds to the transactions on their accounts, while those companies would have more insight and control over their businesses.

6.2.2 Control

According to accounting theory, the normative system also includes the control system that makes sure that the accounting standards are being followed. In the Bolivian reality this is however not the case, which has resulted in a lack of transparency in the economic life. At present, among the majority of the companies that actually account, the "double accounting" is common procedure. The majority of the interviewed lenders favours a standardisation of the Bolivian accounting system, however, some have also expressed their doubts of whether a standardisation will prevent the companies from continuing to provide falsified accounting information. Thus, while education can improve small and medium sized companies' accounting skills it may not be sufficient in order to make the accounting trustworthy which is indispensable for lowering the gap between the demand and supply of accounting information. Naturally, it is illegal to present false figures, but since many companies do not follow the law there is a great need for a control organ that could guarantee the reliability of

the accounting. The new law in Bolivia mentioned in section 4.1, which prohibits the banks to use other accounting than the official one when evaluating companies is a good start but it will not prevent non-loan soliciting companies to falsify their accounting. An option could be to demand audit of accounts also of small and medium sized companies accounting information.

Furthermore, in order for a control organ to supervise the accounting of small and medium sized companies these need to be registered and be formal businesses. Subsequently, it is of great importance to decrease the informal sector. One of the reasons for the informality in Bolivia is the obstacles to formally start a business since it is expensive, complicated and time consuming, and Antequera at Idepro (June 2, 2004) points out that accounting per se is not a reason for informality, but rather the accumulation of complicated regulations. Hence, in order to decrease the informal sector and thereby make the control of accounting possible, it is necessary to make the process of starting a company both easier and cheaper.

6.2.3 Change in attitudes and values of accounting

Education and control are as shown both important measures in this project. However, the infamous "double accounting" and the informality are widely rooted in the minds of the Bolivian business people, and they are in addition more or less accepted in the society, which make them parts of the Bolivian accounting subculture. Thus, changing the accounting system does not only require education and control but in addition a change in attitude and mentality regarding accounting, not solely among small and medium sized companies but in the society as a whole. The society, represented by actors dealing with companies, such as lenders, tax authorities, auditors, suppliers, customers and others that may have interest in the accounting of a company, should therefore not accept false accounting. It is especially important for the auditors to reject false accounting since they are in great need of improving their credibility and reliability. However, a change in attitude in the society cannot be provoked completely by external actors; incentives are also needed for small and medium sized companies to change their attitudes. Awareness of the utility of accounting for internal purposes could be that incentive, as could greater possibilities of obtaining bank loans. Thus, companies need incentives to account and they need to understand why they must account.

There is furthermore another reason for why it is important that small and medium sized companies should understand why it is beneficial for them to account. Societal changes are, as explained in chapter five, often met with civil resistance. A change in the accounting system, will most likely face civil resistance in form of roadblocks and demonstrations, with a possible violent outcome, since people in general are reluctant to paying tax.

Consequently, in order to make small and medium sized companies' accounting reliable and trustworthy there are three measures that are considered most important. *Education* is necessary in order for companies to be able to account technically, and also for companies to learn how to make use of the accounting in the internal management. Legal pressure in form of a *control organ* that can ensure the reliability and trustworthiness of the accounting is also of great importance. Incentives to account and an understanding of the necessity of accounting among small and medium sized companies are also requisites in order to change the *attitudes* towards accounting.

6.2.4 General advice

The authors believe that a successful change of the Bolivian accounting system requires cooperation between several actors such as companies, the state, users of accounting information, auditors and accountants. These need to work together for the change to succeed. As mentioned earlier, NGO's and other business organisations are actors with which the state could establish a valuable cooperation. Other valuable associates for the state in this project could also be the lenders. The authors suggest that their opinions should be considered since they have most experience of small and medium sized companies' accounting information; they are familiar with small and medium sized companies' ability to account and they know what they demand in order to evaluate a company. This suggestion also implies that the authors advice the state to base the future regulation on the relation between the user's demand and the companies prerequisites and abilities to account.

As brought up, this proposed project involves large costs, both non-recurring set-up costs, such as the implementation of new regulations and a control organ for the government and the implementation of new accounting procedures in the companies, and continuing costs of operating the system. Especially the set-up costs would most likely be a large problem since the potential benefits will not come immediately. The costs for both the producers of accounting information and for the government are costs that neither of them probably could afford considering the bad economic state they are in now. Therefore, assistance and money from contributors would probably be needed in the set-up phase.

Regarding the tax connection, the authors believe it is best if a strong tax connection is maintained for small and medium sized companies since it is the simplest and cheapest alternative for these companies. The potential loss of relevance in the accounting information, because of a strong tax connection mentioned in 2.4.1, would hardly be experienced by the users of small and medium sized companies' accounting information. This is because smaller companies, in general, do not have external investors that are separated from the management and thus need accounting information in order to base their decisions.

Clear definitions of what is a micro, small, medium sized and large company are necessary to establish in the future accounting standards if it should be possible to allow differences in legal demands of disclosure for companies of different sizes. Moreover, it is also important that the government determines what it wants to accomplish by changing the Bolivian accounting system, e.g. the accounting's use for statistics needs to be established before regulating the accounting, since it could give reason for a demand for disclosure of additional information. If the companies' accounting reports will be used as basis for statistics, it would simplify if the definitions were the same as those used by INE.

Furthermore, it is important to give this project and the new accounting system time in order to function. It implies a large change, not only of regulations but in mentality and attitudes as well, which cannot be changed over night. At the same time, small and medium sized companies need to learn more about accounting, which requires patience among those who are to implement the project.

Ultimately, one must keep in mind that the potential users of accounting information, other than the lenders, are not very experienced in using accounting information, partly because the annual reports today are not public. Therefore, there is a possibility to influence and teach the users what information to make use of. Even in developed countries, for instance Sweden, there is a continuous struggling between regulators and other parts of whether to lower the

requirements on accounting information for smaller companies or not, since they by many are considered too high (Marton, Göteborg University, notes, 2004). Bolivia actually has an opportunity to foster the users and producers and achieve a more appropriate level of disclosure from the start. Subsequently, the country that today has no functioning accounting system can turn this into an opportunity and create a functioning accounting system with a level of disclosure in accordance with country specific needs.

7 Conclusion and Further Studies

In chapter seven, the authors conclude the research performed in this thesis, with a short description of the problem that has been treated, along with the results. Additionally, proposals for further studies and actions are suggested and presented.

7.1 Conclusion

Bolivia is the poorest and least developed country in South America, and the country is dependent on support from other countries. SIDA, as one of the country's external contributors, assists Bolivia in reducing its poverty through different development projects. At present, SIDA has made plans for a project, called Project 205, which involves the introduction of a standardised chart of accounts, and improvements of the Bolivian accounting regulations and institutions.

The accounting in Bolivia has many problems. The different institutions responsible for the accounting legal framework are badly coordinated and the recommendations are relatively complicated and mostly suited to the larger companies. Hence, it is at present difficult for Bolivian companies to follow the Bolivian accounting regulations, which makes the accounting information presented by the Bolivian companies inconsistent. The inconsistency of the companies' financial information decreases their reliability and transparency and it is difficult for credit institutes to make decisions regarding loans, or for potential stock market actors to evaluate companies. Because of the discrepancy in the accounting regulations, it also becomes easier for companies to manipulate the figures and pay too little tax. Subsequently, the main purpose of external accounting, which is to provide the users with relevant and reliable financial information about the company, is not fulfilled. Keeping the accounting system in Bolivia as it is today, adds to the existent problems with corruption, informality, low access to financial markets, ineffective capital allocation etc. Project 205 is aiming at preventing this.

Small and medium sized companies constitute the larger part of the economy and are thus very important for Bolivia. This thesis is a proposed extension of Project 205 with focus on these companies. The legal requirements of accounting for small and medium sized companies are the same as for a large company, which makes the task of accounting particularly difficult for small and medium sized companies. In addition, there are very few who actually pay attention to if the requirements are followed; for instance, small and medium sized companies are excepted from the requirement of the audit of accounts. In reality, the Bolivian accounting is today mainly restricted to the large companies.

The main purpose in this these has been to discuss *what mandatory disclosure of accounting information that is appropriate to require from Bolivian small and medium sized companies*. This has been studied considering the demand for accounting information on behalf of the users, and the small and medium sized companies' prerequisites to account.

The method of investigation has mainly been qualitative, and primary as well as secondary sources of information have been used. In order to carry out the investigation, the authors have conducted a field study in Bolivia. Regarding the investigation of the users' demand for accounting information, the investigated users have been the lenders and the state since they

were considered most important. As regards the producers' prerequisites to account, the authors have through theory, selected several factors to investigate further.

The authors found that, at present, there is a large gap between the users' demand and the small and medium sized companies' prerequisites to present the demanded information. The producers of accounting information simply cannot provide the users with the information they demand. Hence, it is of great importance for Bolivia to reduce this gap. The authors have furthermore concluded that most lenders are willing to lower their demand given that the small and medium sized companies' accounting information is supported by a standardised and trustworthy system. Therefore, it all comes down to increasing the quality, quantity and reliability of small and medium sized companies accounting information in order to reduce the gap between the demand and supply to obtain an appropriate level of disclosure.

The authors have found *differential disclosure regulations* preferable for Bolivian small and medium sized companies, implying that the legal requirements on disclosure in small and medium sized companies are fewer. This can however be applied in different ways. The Bolivian government could adopt the differential accounting standards that the IASB has been requested to develop by the EU, assuming the IASB will go through with this idea. This would require fewer resources in comparison to the alternative to develop the differential standards themselves. On the other hand, an own development would better take into account country specific needs, which would diminish the risks for miss specified costs. The optimal alternative depends on how much money the state can spend on the creation of the new accounting system, a reason for why the authors do not state a final recommendation regarding this issue. In the case of a domestic development of differential disclosure regulations by the Bolivian state, the authors think that the financial reports to require from the Bolivian small and medium sized companies should be as simple as possible, and preferably only consist of cash flow statement and a balance sheet and possibly also an income statement, all in simplified versions.

The authors have also identified three decisive requisites in order for a new Bolivian accounting system to function. First and far most, the *accounting knowledge* of small and medium sized companies has to be improved since they today lack both technical and theoretical knowledge of how to account. Therefore education is crucial in this process. A *control organ* is also of great importance in order to guarantee the reliability of the accounting. Ultimately, there is a need for changing the *societal attitudes* towards accounting in order to impede the enormous informality in the country and the infamous and widespread use of the illegal "double accounting".

The changing of the Bolivian accounting system naturally implies large costs, but the authors believe that these costs, in the long run, will be outweighed by the potential benefits, reason for why this project is thought to be worthwhile. However, considering the bad economic state of the Bolivian companies and the state, assistance would be needed, at least in the beginning, since the project imply large set-up costs.

Ultimately, the project of changing the Bolivian accounting system requires cooperation between several actors including companies, the state, users of accounting information, auditors and accountants. The cooperation of these actors is crucial in order to succeeding with this project.

7.2 Further studies and actions

As mentioned in section 1.5, accounting regulation includes both rules for disclosure and rules for measurement. In this thesis only the disclosure rules, i.e. *what* accounting information the company has to present, have been considered. However, if a change in the accounting regulations should be performed, as suggested in this thesis, also the measurement rules, implying *how* to measure, calculate and value the accounting information, need to be assessed in order to suggest simplifications for small and medium sized companies also in these rules.

Moreover, the internal accounting, and the internal use of external accounting, was excluded from the investigation in this thesis. However, as the authors have in the analysis enlightened that an understanding of accounting information for management purposes can be an important factor for the small and medium sized companies in order to accept the accounting regulations at all. A further study recommended by the authors is to, in close cooperation with small and medium sized companies, investigate how their internal management today is carried out and how accounting information could improve the management. Furthermore, research could preferable be done on how to go through with an implementation of internal accounting in a successful way.

In the thesis, cash flow accounting was proposed as a possible solution for small and medium sized companies, even though a more advanced accounting was suggested as a preferable alternative. However, cash flow accounting, if not used in small and medium sized companies, could be a solution for the micro businesses. The micro businesses today have no legal requirements of accounting and they are allowed to be in a simplified tax regime where they pay a fixed amount of tax based on their stated assets. There have however been failed attempts on behalf of the state to abolish the simplified tax regime and to let all companies be in the same tax regime, i.e. tax according to their benefits (Barea and Vargas, May 19, 2004). This would however require that these companies could calculate their taxable income. Cash flow accounting would provide the simplest way for them to do this, and could thus be a subject for further studies regarding Bolivian accounting.

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9 Appendices

Appendix 1 - Vocabulary

English	Swedish	Spanish
<i>Chapter 1</i>		
Accounting	redovisning	contabilidad
allocation of resources	fördelning av resurser	asignación de recursos
asset	tillgång	activo
Association of auditors	revisors associationen	Colegio de Auditores
audit of accounts	revision	auditoría, revisión de cuentas
auditor's report	revisorns rapport	informe del auditor
balance sheet	balansräkning	balance
Book of Purchases and Sales VAT	Momsdeklaration	Libro de compras y ventas IVA
coherent	sammanhängande	coherente
Commercial Code	Handelslagen	Código de Comercio
compilation	sammanställning	recopliación
daily bookkeeping	löpande bokföring	llevar la contabilidad / las cuentas
decree	dekret, förordning	decreto
disclosure of accounting information	skriftlig framställning av redovisningsinformation	presentación escrita de información contable
economic life	näringsliv	vida económica
financial statements	finansiella rapporter	estados financieros
general ledger	huvudbok	libro mayor
Generally Accepted Accounting Principles (GAAP)	Generellt accepterade redovisningsprinciper	Principios de Contabilidad Generalmente Aceptados
income statement	resultaträkning	estado de resultado
inconsistent	inkonsekvent	contradictorio
interviewee	intervjuobjekt	persona entrevistada
inventory book	inventarie bok	libro de inventario y balances
journal	dagbok (för bokföring)	diario (para contabilidad)
legal framework	legalt ramverk	marco legal
liquidity	likviditet	liquidez
mandatory	obligatorisk	obligatorio
Non Governmental	Icke-statlig organisation	Organización no

Organisation (NGO)	(NGO)	Gubernamental (ONG)
non-profit organisations	icke vinstdrivande företag	empresa sin fines de lucro
prerequisite	förutsättning	condición previa
reporting	rapportering	presentar/emitir un informe
small and medium sized companies	små och medelstora företag	pequeñas y medianas empresas (PYMES)
shareholder	aktieägare	accionista
sole trader	enskild firma	empresario unipersonal
stakeholder	intressent	persona/grupo con interés
standardised chart of accounts	standardiserad kontoplan	plan único de cuentas
statement of cash flow	kassaflödesanalys	estado de flujos de caja
statement of changes in equity	förändringar i eget kapital	estado de evolución patrimonial
Swedish International Development Cooperation Agency (SIDA)	Swedish International Development Cooperation Agency (SIDA)	Asociación Sueca de Desarrollo y Cooperación Internacional (ASDI)
tax regime	skatteregim	régimen tributario
turnover	omsättning	movimiento, facturación
valuation	värdering	valoración
Value Added Tax (VAT)	Mervärdesskatt (moms)	Impuesto sobre el Valor Añadido (IVA)
World Bank	Världsbanken	Banco Mundial
worthwhile	värd	merecer la pena

Chapter 2

accountant	redovisare	contador
accounting year	räkenskapsår, bokföringsår	ejercicio contable
adequate	lämplig, passande	adecuado
administrative report	förvaltningsberättelse	informe administrativo
annual report	årsredovisning	informe anual
assessment	utvärdering	evaluación
business ratios	nycketal	análisis financiero
closing date	bokslutsdag	dia del balance
creditworthiness	kreditvärdighet	solvencia
depreciation	avskrivning	amortización
differential disclosure	differentierad redovisnings	información contable

	information	diferenciada/ distinguida
emulate	efterlikna	emular
equity	eget capital	capital propio
full-fledged member	fullvärdig medlem	miembro de pleno derecho
gap	glapp	espacio, hueco
grant freedom of responsibility	bevilja ansvarsfrihet	eximir a alguien de responsabilidad
international treaties	internationella avtal	tratado internacional
interference	inblandning	intromisión
liabilities	skulder	duedas
liabilities and equity	eget kapital och skulder	pasivo
management's discussion	VD:s ord	carta del presidente
merchandise	varor	mercancías
misspecify	missrikta	equivocar
non-recurring cost	engångskostnad	costo único
operation	verksamhet	operaciones
outweigh	övertäga	estár en mayoría
overarching	övergripande	de conjunto, global
profitability	räntabilitet	rentabilidad
public limited company	publikt aktiebolag	sociedad anónima
situationist strategy	situationsanpassad strategi	estrategia de adaptabilidad a las circunstancias
societal	samhällelig	social
solvency	soliditet	solvencia
tax connection	skattekoppling	conexión fiscal
trade union	fackförening	sindicato

Chapter 3

accentuate	påpeka	señalar
beneficiary	förmånstagare	beneficiario
cooperatives for savings and credits	kooperativ för in- och utlåning	cooperativas de ahorro y crédito (CACs)
enhance	förbättra, förhöja	aumentar
feature	karaktärsdrag	rasgo
grant a credit	bevilja lån	conceder un crédito

grasp	greppa	comprender
illuminate	belysa	iluminar, aclarar
literacy	läskunnighet	alfabetización, que sabe leer
micro credit	mikrokredit	micro crédito
peasant family	jordbrukarfamilj	familia agraria
preparatory	förberedande	preparatorio
provision	tillhandahållande	suministro, previsión
referential frame	referensram	marco de referencia
reluctant	motvillig	reacio, tener aversión
the non-bank sector	icke-bank sektorn	el sistema no bancaria
the mutual system of savings and loans for housing	det ömsesidiga systemet för bosparande och bolån	el sistema mutual de ahorro y préstamo para la vivienda (MAPs)
trustworthiness	trovärdighet	credibilidad

Chapter 4

elaborate	utarbeta	elaborar
competitive force	konkurrenskraft	fuerza competitiva
guarantee	garanti	garantía
hypothec	hypotek, pantförskrivning	hipoteca
policy	policy	política
positioning	positionering	posicionamiento
real guarante	real garanti	garantía real
revise	revidera	revisar
soliciting	sökande	solicitando
stand surety for	gå i borgen för	salir garante de
viability	genomförbarhet	viabilidad, factibilidad

Chapter 5

accounts receivables	kundfordringar	cuentas a cobrar
bribe	muta	soborno, coima
compulsory	obligatorisk	obligatorio
contributor	skattebetalare	contribuyente
deficiencies	brister	deficiencias, defectos
deregulation	avreglering	liberalización
disrespectful	icke respektfull	irrespetuoso

dissatisfied	otillfredställd	descontento
drug trafficking	droghandel	narcotráfico
gambling	spel	juego
inappropriate	olämplig	poco apropiado
inefficient	ineffektiv	ineficaz
insufficient	otillräcklig	insuficiente
machinery	maskinell utrustning	maquinaria
mother tongue, first language	modersmål	lengua materna
obsolete	föråldrad	obsoleto
proclaimed	deklarerad	proclarado, declarado
public expenditure	offentlig utgift	gasto público
roadblock	vägblockad	bloqueo de camino
sales ledger	kundreskontra	libro mayor de cuentas a cobrar
sparse	knapp	escaso
survival	överlevnad	supervivencia

Chapter 6

measures	åtgärd	medida
presuppose	förutsätta	(pre)suponer

Appendix 2 - Interview with Carl-Gustav Svensson, SIDA, Stockholm

1. Is the need for external accounting information greater today, e.g. for evaluation purposes, when the Bolivian stock exchange is being developed and improved? What other factors motivate SIDA's interest regarding this issue? For which actors is the problem most apparent?
2. How well developed is the education of (external) accounting in Bolivia at present? Are there large differences between cities and the countryside?
3. What does SIDA wish to accomplish by changing the Bolivian accounting system? What are the plans in more detail? Does it solely involve the implementation of a standardised chart of accounts or does it include other aspects in the accounting system such as development of accounting laws, tax connection, and economic education?
4. We have understood that unmodern laws complicate the development of the Bolivian economic life; how is the implementation of a standardised chart of accounts expected to improve that situation? What problems related to the accounting system would most likely not be solved through the implementation of a standardised chart of accounts? What other measures would be needed?
5. Would a Swedish chart of accounts facilitate for smaller businesses on the countryside that may have limited education? How? Is there any risk that it would make it even more difficult for them with higher requirements?
6. Is the idea established in Bolivia and who came up with the original idea? Is there any resistance against it in the country?
7. Why do you believe the Swedish chart of accounts to be a good alternative? Are there, e.g. similar systems in other Latin American countries that prove this to be the best alternative?
8. Do you have any idea of an appropriate focus for our thesis, e.g. any lack of information that needs to be compiled?
9. Is there someone who works with SIDA in Bolivia that we can utilise as contact person and as a further source of information?

Appendix 3 - Interview with Jörgen Handell, Ekonomitolken AB, Stockholm

1. Can you describe the Bolivian accounting system of today, e.g. tax connection and internal accounting, etc? How do companies account at present without the usage of a standardised chart of accounts? Do companies present annual reports? Could you describe the legal requirements of external accounting information? Is there any equivalent to the Swedish organisation for authorised auditors and specialists in accounting (FAR) and the law for financial reporting (ÅRL)?
2. Is there any difference in requirement between public and private businesses regarding external accounting information?
3. How well developed is the education of (external) accounting in Bolivia at present? Are there large differences between cities and the countryside?
4. Is the need for external accounting information greater today, e.g. for evaluation purposes, when the Bolivian stock exchange is being developed and improved? What other factors motivate SIDA's interest regarding this issue? For which actors is the problem most apparent?
5. What does SIDA wish to accomplish by changing the Bolivian accounting system? What are their plans in more detail? Does it solely involve the implementation of a standardised chart of accounts or does it include other aspects in the accounting system such as development of accounting laws, tax connection, and economic education?
6. We have understood that unmodern laws complicate the development of the Bolivian economic life; how is the implementation of a standardised chart of accounts expected to improve that situation? What problems related to the accounting system would most likely not be solved through the implementation of a standardised chart of accounts? What other measures would be needed?
7. Would a Swedish chart of accounts facilitate for smaller businesses on the countryside that may have limited education? How? Is there any risk that it would make it even more difficult for them with higher requirements?
8. Is the idea established in Bolivia and who came up with the original idea? Could you describe and explain the problem with resistance from auditing firms that today makes money on the fact that there is no uniform standard to follow? Is there any resistance?
9. Why do you believe the Swedish chart of accounts to be a good alternative? Are there, e.g. similar systems in other Latin American countries that prove this to be the best alternative?
10. Do you have any idea of an appropriate focus for our thesis, e.g. any lack of information that needs to be compiled?

Appendix 4 - Interview with Eva Törning, PWC, Malmö

1. What was your role in the Bolivian SIDA project?
2. Is there any definition of smaller companies in the accounting regulation in Bolivia, equivalent to the 19/24-rule in Sweden? Is there any particular grouping of companies according to size or listing on the stock exchange for accounting purposes? We have understood that micro businesses only have to present a monthly tax declaration; how do you define a micro business in Bolivia?
3. What are the legal requirements on small companies' accounting at present, i.e. what reports do they have to present?
3b. Are the requirements different for different types of companies?
4. Are there any difficulties that small companies in Bolivia face regarding accounting?
5. Who gathers and present the accounting in Bolivian small companies? Of common is it to hire external accountants for help? If external accounting is necessary; what are the main reasons for this?
6. In the Swedish accounting recommendations, there is a limit between listed and unlisted companies regarding requirements. If one was to draw a limit in Bolivia for less demanding accounting regulation where should this limit be set? Bolivia has a rather small stock exchange, reason for why a limit between listed and unlisted companies may not be suitable.
7. We have understood that Bolivia is trying to follow the rules of the IAS, in which there is no strong tax connection. At the same time, it says in the Project Proposal that the Bolivian tax legislation has a strong influence on the accounting. Do they have a strong tax connection in Bolivia today and what is wished for in the future regarding this matter?
8. Do you think the new accounting system in Bolivia could make informal companies realise the advantages of accounting and therefore register as formal companies? Is there a risk that the informality may increase due to a more demanding accounting regulation for those companies?
9. By studying classification theory of accounting systems, we have selected several factors with the intention of investigating the small Bolivian companies' prerequisites to account, which we think should be taken into consideration when developing regulation concerning small companies. The factors we have chosen are: *general education level, economic education, level of technology (computers), type of industry, location of companies, formality/informality, language barriers, cultural attitudes and supply of auditing firms*. Do you think we have included the most important factors or can you think of other ones, important to investigate? Can you recommend any theories or literature that deal with these issues?
10. When decisions are made in Sweden regarding less demanding rules for smaller companies, on what are these decisions based? I.e., what factors are considered when making these decisions?

11. Do you think that there is something specific that Bolivia should consider regarding the Swedish experiences of less demanding accounting regulation for small companies? E.g., it has been discussed whether Swedish trading companies should be allowed to use the cash method; would this be an alternative for small companies in Bolivia?

- Do you have any recommendation on sources of information concerning Bolivian small companies, their accounting and the informal sector?
- We would like to interview auditors in Bolivia, preferably someone that is involved in the project or that works with small companies. Can you recommend any suitable person at PWC in La Paz that we could contact?

Appendix 5 - Interview with Jan Marton, Göteborg University

1. Is the Swedish standardised chart of accounts unique? What distinguishes it from those used in other countries?
2. What are the largest differences in the accounting regulations concerning listed versus unlisted companies, and concerning companies of different sizes and company form in Sweden? For instance, who need to produce an annual report, have daily bookkeeping, is allowed to follow the “cash-method”, i.e. base the result on real flows?
3. In Bolivia, they have an enormous informal market, and very demanding accounting regulations could furthermore impede companies from account at all. Could it be a good idea to not let the costs of accounting for the company exceed the benefit for the same? Is it a possibility to allow smaller companies to present only the accounting information that is demanded by their users, although the legal requirements on accounting would be (much) more demanding for other companies?
4. What factors do you consider most determining when deciding what costs of accounting smaller companies ought to take when developing differential accounting regulations for these companies? Is it for instance wise to consider economic education among the producers, company forms, total amount of smaller companies in relation to the economy? What factors could be important in a developing country?
5. In the US unlisted companies do not have to produce an annual report; how do they present accounting information to their users? Why did the US take this decision, what was the reasoning behind the decision? Do other countries have similar regulations?
6. What other measures could be taken in a country in order to facilitate the accounting for smaller companies, such as education of business persons, the development of a standardised chart of accounts adjusted to the needs of smaller companies, development of accounting software? What measures have for instance been applied in Sweden or the US during the years?
7. Can you recommend any literature that deal with benefits and costs of accounting, or literature concerning small and medium sized companies' and unlisted companies' accounting, especially concerning what difficulties they face concerning requirements of disclosure of accounting information?

Appendix 6 - Interview with Ruddy Xavier Ampuero, SIDA, Bolivia

1. In the plan of Project 205, are there any considerations about how to facilitate the accounting for small and medium sized companies? If that is the case, how?
2. Is there an official Bolivian definition of companies of different sizes?
3. Do all companies have to register in the Commercial register? In the plan of Project 205, we read that micro businesses are excepted from accounting and are in a simplified tax regime? Can you tell us more about this?
4. What are the plans for the Bolivian government or INE to collect economic life statistics from the accounting information? Are you familiar with the details of this plan, such as what information are they planning to collect?
5. Does the accounting in Bolivia today have a strong or weak tax connection, i.e. how large is the influence of the tax laws over the accounting or vice versa?
6. For the future, has there been any considerations concerning changes in the current tax connection between the accounting regulation and the tax regulation?
7. What is the general perception of auditors in the Bolivian society?
8. Can you recommend any persons, organisations, banks, micro creditors that can inform us about the Bolivian economy, Bolivian accounting regulations and accounting in small and medium sized companies etc? Do you have any connections that we can use? Can you recommend any other useful sources of information?

Appendix 7 - Interview with PhD Mendoza, UMSA, Bolivia

Questions about the Bolivian economy and Bolivian companies in general

1. Are there any established definitions of micro, small, medium- sized and large companies and industries?
2. In what legal ways can one start a company? Does everybody have to register in *Fundempresa*?
3. What is the *Régimen Tributario Simplificado*? Who is it meant for and for what purpose?
4. What is the *tarjeta empresarial*? Who is it meant for and for what purpose?
5. How does the *Registro Único de Contribuyentes (RUC)* and the *Número de Identificación Tributaria* work?
6. Could you estimate the size of the Bolivian informal sector? What are the main reasons for companies to choose operating in that sector?

Questions about the Bolivian accounting system?

7. On what is the Bolivian accounting based? Could you describe the system in more detail and straighten out the connections:
You have said earlier that there are 12 principles (*Principios Generalmente Aceptados*) which are administrated by the *Colegio de Auditores*. According to the SIDA project the accounting is based on 1. tax law and decrees (mainly law nr. 843), 2. the commercial code and 3. recommendations from the technical council. These three have the objective to adjust to the 12 principles.
8. Is there any legal difference between companies on the stock exchange and other concerning the demand for accounting information?
9. Is there any difference regarding companies of different size, legal form, sectors, regime (general or simplified) or for those who have the *tarjeta empresarial*?
10. Which companies have to present an annual report? Those who do not, what do they have to do instead?
11. What is the difference between an accountant and an auditor?
12. Are there also governmental auditors? What are their primary functions?
13. Which companies have to use an auditor in order to authorise the annual report? For which companies is it sufficient with an authorisation by an accountant and which companies do not need to have an authorisation (e.g. they only present a tax declaration)?
14. What is meant by “double accounting”?
15. How does the control system work when it comes to the Bolivian accounting?
16. The Bolivian accounting rules are only in *Castellano* (Spanish) or in *Quechua* and *Aymara* as well?
17. The international development regarding accounting implies a weaker connection between the accounting and the taxation for companies on the stock exchange. How is the situation in Bolivia? Is there any difference in the connection regarding companies of different types and sizes?
18. What are the Bolivian society’s attitudes towards accounting and auditors? Do people think that the auditors are reliable and that they maintain their independence?

Questions about small and medium- sized companies and their accounting

19. What is the difference between small and medium- sized companies and small and medium- sized industries?
20. The micro companies do only have to present a tax declaration every second month. What regime or recommendation establishes that? Which are these micro companies? Is the tax declaration of the micro companies based on the cash flow or on more advanced accounting?
21. We have been told that many micro and / or small and medium- sized companies declare their incomes over the internet. How does that system work?
22. Do the small and medium- sized companies need external help in order to manage the accounting or do they have sufficient knowledge and resources to handle it by themselves?
23. What are the main problems for the small and medium- sized companies when it concerning accounting?
24. Are the accounting rules easily accessible and easy to understand for the small and medium- sized companies?
25. How are the attitudes in the Bolivian small and medium- sized companies towards accounting?
26. How do they feel about providing the public with “private” information?

Questions about education of auditors and business administration?

27. How is the educational distribution in Bolivia regarding studies of accounting and business administration?
28. Does the quality of the education vary in different parts of the country?
29. Do you have any established national education plan for accounting?
30. How do you get to be an auditor? How many years of study and practise is necessary?
31. How do you get to be an accountant?
32. How is the educational distribution regarding accounting and economy for adults?

The future accounting in Bolivia

33. Do think that a better functioning accounting system that would enlarge the possibilities for small and medium- sized companies of obtaining bank loans would animate more informal companies to enter the formal sector?
34. If a large number of companies would enter the formal sector would there be sufficient accountants and auditors to satisfy the increasing demand for the services of those actors?
35. In your opinion, should there be different legal requirements of accounting information for companies on the stock exchange compared to others? Should there also be any difference between companies of different sizes, legal form and sectors?
36. If simpler accounting rules and standards were created for the Bolivian small and medium- sized companies what accounting reports should these companies be obligated to present as minimum?
37. Considering that cash flow based accounting has been given much attention internationally, could it be possible to demand a cash flow analysis solely from the small and medium- sized companies, or at least for the smaller companies? In your opinion, should this information also be sufficient for obtaining bank loan and if not, what reports would these companies have to present as minimum?

Appendix 8 - Interview with the auditors Barea and Vargas, Bolivia

1. How do you define micro, small, medium sized and large companies? Is there any official definition in Bolivia?
2. Is there any legal difference in the required accounting information of companies concerning:
 - listing on the stock exchange
 - size
 - type of company
 - etc
3. To what extent can small and medium sized companies account today?
4. How advanced is the accounting in small and medium sized companies in general? What reports do they have to present by law? What types of reports do they produce and present (do they follow the legal requisites)?
5. What difficulties do small and medium sized companies have to account?
6. Do small and medium sized companies, formal as well as informal, have the knowledge required to account?
7. To what extent do small and medium sized companies use accountants and auditors?
8. What attitudes have small and medium sized companies towards accounting?
9. How do small and medium- sized companies feel about providing the public with private information?
10. Is there, in your opinion, any shortages in the accounting of small and medium sized companies? What are the shortages? Do they make the interpretation of the accounting more difficult?
11. Do you consider some parts of the accounting to be more important than others when evaluating the credit worthiness of small and medium-sized companies? Could you rank the following parts in order of importance:
 - income statement
 - balance sheet
 - notes / additional information
 - administration report
 - cash flow analysis
 - interim report
 - auditor's report
 - management's discussion
 - prognosis
 - environmental analysis, info of employees, environment, risk analyses, etc
 - business ratios
 - other, what: _____

12. Is there any irrelevant information in the accounting, which the small and medium sized companies normally present, for which there is no need?
13. Would it be important that the accounting information would be standardised, i.e. that it is comparable over time and with other companies?
14. As we have understood, the micro businesses do only have to present a tax declaration? What is this tax declaration based on in those companies? Is it based on the cash flow in the company, i.e. in the inflow and outflow of money or on more advanced accounting?
15. Do you believe that more small companies would enter the formal sector if there were an accounting system with fewer requirements on these companies and with greater possibilities of obtaining bank loans?
16. If a large number of companies would enter the formal sector, would there be sufficient accountants and auditors to satisfy the increasing demand for the services of those actors?
17. If simpler accounting rules and standards are to be created for small and medium sized companies, what accounting information is appropriate to obligate these companies to present? Could be possible to base the accounting in the cash flow in these companies?
18. What would, in your opinion, be the minimum level of accounting information that small and medium- sized companies would have to present in order to obtain bank loans?
19. Do you think that the requirements of accounting information should differ in different companies regarding:
- size
 - listing on the stock exchange
 - type of business
20. Is there a strong or weak tax connection in the Bolivian accounting today? Is there any difference for companies listed on the stock exchange?

Appendix 9 - Interviews with five Bolivian commercial banks

1. The bank, in which you work, does it grant loans to small and medium sized companies?

If no: What are the reasons for not granting them loans?

If yes:

A. According to the proposition of the project of improving the Bolivian accounting system from 2003, written by several Bolivian organisations and SIDA, which concerns our study, the Bolivian banks, in general, do not grant loans to private companies. In the bank in which you work, for how long time have you been granting loans to small and medium-sized companies?

B. Does the bank have an official definition of what is a small and medium sized company, which?

C. To what type of small and medium sized companies, regarding business, sectors and size of the company, do you grant the majority of the loans?

D. Could you estimate the percentage of the total loans that the bank lends to small and medium sized companies?

E. Concerning small and medium sized companies, the clients for which you provide loans are they in their majority existing or new clients?

2. Do you use models for assessment of creditworthiness when it comes to small and medium sized companies? What factors does it include?

3. Are there, in your opinion any shortages in the accounting of the small and medium sized companies? What are the shortages? Do they make the interpretation of the accounting information more difficult?

4. What accounting information do you demand / would you demand in order to grant loans to small and medium- sized companies?

5. What additional information do you demand / would you demand from small and medium sized companies (except for the accounting information)?

6. Do / would you also search information from other sources, from outside the company? What sources?

7. How important is the accounting information in comparison to other sources of information?

8. Does the bank have any policy regarding guarantees from the applying small and medium sized companies? What type of guarantee do you normally demand and do you demand a certain percentage of the loan?

9. When your bank makes decisions regarding loans to companies, do the demanded accounting information and other information, differ among different companies concerning size, type of company and the sector in which it operates?

10. Does the demand for guarantee also differ concerning size, type of company and sector?

11. Do you consider some parts of the accounting more important than others when evaluating small and medium sized companies in order to grant loans? Could you rank the following parts in order of importance:

- income statement
- balance sheet
- notes / additional information
- administration report
- cash flow analysis
- interim report
- auditor's report

- the management's discussion
- prognosis
- other information, such as environmental analysis, information about employees, environment, risk analyses, etc
- business ratios
- other, what: _____

12. Is there any irrelevant information in the accounting that small and medium sized companies normally present?

13. Is / would the auditor and the auditor's report be of much importance in a decision of credit to small and medium sized companies?

14. Do you consider accountants and auditors to be reliable and trustworthy?

15. Would it be important that the accounting information from small and medium sized companies were standardised, i.e. that it were comparable over time and with other companies?

16. It requires some time to gather and present the annual report, and as a possible consequence the accounting information may not be relevant. If companies present the accounting information rapidly it is obviously more relevant, however, in that case it is possible that it is not reliable. What would you prefer, more reliable, or more relevant information?

17. How often would you wish that the small and medium sized companies presented accounting information? e.g. once a year, quarter reports, etc.

18. In order to make decisions regarding loans to small and medium sized companies, would it be sufficient if the accounting information of these companies were less advanced in comparison to larger companies?

19. If a transparent and standardised accounting system were to be implemented, but with less requirements for small and medium sized companies in order to facilitate the work of accounting for these companies; as minimum, what accounting information would you demand from these companies?

20. Would it be possible to evaluate small and medium sized companies, or at least the small and micro companies, in order to make a loan decision with the cash flow analysis solely if it was supported by a standardised and transparent accounting system?

Appendix 10 - Interviews with three Bolivian micro creditors

1. Is the bank controlled by the “Superintendent of banks”?
2. Is the bank a profit or a non-profit organisation?
3. The money that the bank lends, from where does it originate (savings, contributions etc)? If the bank receives contributions how large is the percentage of the contributions in relation to the total amount lent?
4. What is the official definition in the bank of what is a micro, small and medium sized company?
5. What types of companies are your principle clients regarding size, sector in which they operate, location, juridical form, formal/informal company etc?
6. Does the bank grant loans principally to already existing or new clients?
7. Could you estimate the percentage of the total value of the loans that the bank grants to small and medium-sized companies?
8. To what extent can small and medium sized companies account in order to provide reliable information with the intention of receiving loans in banks that are not micro banks?
9. We assume that your clients cannot obtain loans in commercial banks, why; what do they lack in general (information, guarantee)?
10. Does the bank utilise models in order to evaluate the companies and make decisions regarding loans to companies? What factors do you consider in those models?
11. What accounting information does the bank demand in order to grant a loan to small and medium sized companies?
12. Would you demand additional information (except for the accounting information) from the small and medium-sized companies? What kind of information?
13. What other information would be sought from other sources, i.e. not within the company? What sources?
14. How important is the accounting information in comparison to other sources of information?
15. Does the bank have any policy regarding guarantee that you demand from loan soliciting small and medium sized companies? What type of collateral do you demand normally and do you demand a certain percentage of the loan as guarantee?
16. What accounting information and other do you demand in order to grant a loan to a micro company?

17. What information do you demand from an informal company, if that would be the case?
18. When the bank make a decision regarding a loan to a company, does the demand for accounting information and other differ considering the size, juridical form of the company and the sector in which it operates?
19. Does the demand for guarantee also differ considering size, juridical form and sector in which it operates?
20. Do you consider some parts of the accounting to be more important than others when evaluating the credit worthiness of small and medium sized companies? Could you rank the following parts in order of their importance:
- income statement
 - balance sheet
 - notes / additional information
 - administration report
 - cash flow analysis
 - interim report
 - auditor's report
 - the management's discussion
 - prognosis
 - other information, such as environmental analysis, info of employees, environment, risk analyses, etc
 - business ratios
 - other, what: _____
21. Is there any irrelevant information in the accounting that the small and medium sized companies normally present, for which there is no need?
22. Are the auditor and the auditor's report of much importance in a decision of credit?
23. Do you consider accountants and auditors to be reliable and trustworthy?
24. Are there in your opinion any shortages in the accounting of the small and medium sized companies? What are the shortages? Does it make the accounting information difficult to interpret?
25. Would it be important that the accounting information would be standardised, i.e. that it is comparable over time and with other companies?
26. It requires some time to gather and present the annual report, and as a possible consequence the accounting information may not be relevant. If the companies present the accounting information rapidly it is obviously more relevant, however, in that case it is possible that it is not reliable. What would you prefer, more reliable information or more relevant?
27. How often would you wish that the small and medium sized companies presented accounting information? e.g. once a year, quarter reports, etc.

28. In order to make decisions regarding loans to small and medium sized companies, would it be sufficient if the accounting information of these companies was less advanced in comparison to larger companies?

29. If a transparent and standardised accounting system is to be implemented, but with less requirements for the small and medium-sized companies, in order to facilitate the work of accounting for these companies, as minimum, what accounting information would you demand from these companies?

30. Could it be possible to evaluate the small and medium-sized companies, or at least the small and micro companies, in order to make a loan decision with the cash flow analysis solely if it was supported by a standardised and transparent account system?

Appendix 11 - Interview with Sandra Nisttahusz Antequera, Idepro, Bolivia

Questions about Idepro:

1. What is Idepro's function? From where does the money originate that the organisation lends?
2. With what kind of companies do you work, i.e. regarding size, sectors, formality and informality? Location?
3. What is your function in Idepro?
4. Is Idepro controlled by the Superintendent of banks?
5. Do you use / need accounting information when you grant loans?
6. Do you demand guarantees when you grant loans to companies?

Questions about the Bolivian economy in general:

7. How do you define micro, small, medium- sized and large companies in Bolivia?
8. Could you estimate the size of the informal sector?
9. What is the *tarjeta empresarial* (corporate card) and what is its purpose?
10. How does the *régimen tributario simplificado* (simplified taxable regime) work? What is the limit of the value of the assets for using the *régimen tributario simplificado*? What is its purpose?

Questions about small and medium- sized companies and their accounting:

11. In the small and medium-sized companies, in the formal as well as in the informal sector, what level of knowledge do they have, i.e. do they know how to read, speak *castellano* (Spanish), have they finished (primary) school, etc?
12. In the small and medium-sized companies, in the formal as well as in the informal sector, do they have basic knowledge about economy and accounting (from school or University)? Do they need external help?
13. In general, is there any supply of education for adults in Bolivia?
14. How is the supply of accountants in the rural areas?
15. How do formal, micro, small and medium- sized companies account today and on what do they base their accounting (e.g. on the cash flow, income statement, in order to account the tax)?
16. How is the general attitude towards accounting among Bolivian companies?

Appendix 12 - Interview with Leonardo Chavez, Idepro, Bolivia

Questions about Idepro:

1. What is Idepro's function? From where does the money originate that the organisation lends?
2. With what kind of companies do you work, i.e. regarding size, sectors, formality and informality? Location?
3. What is your function in Idepro?

Questions about the Bolivian economy in general:

4. How is the composition of the Bolivian economic life according to dominating sectors, sizes of companies, type of businesses etc?
5. How do you define micro, small, medium- sized and large companies in Bolivia?
6. Could you estimate the size of the informal sector? What are the principal reasons for a company to be acting in the informal sector?
7. What is the *tarjeta empresarial* (corporate card) and what is its purpose?
8. How does the *régimen tributario simplificado* (simplified taxable regime) work? What is the limit of the value of the assets for using the *régimen tributario simplificado*? What is its purpose?

Questions about small and medium- sized companies and their accounting:

9. In the small and medium-sized companies, in the formal as well as in the informal sector, what level of knowledge do they have, i.e. do they know how to read, speak *castellano* (Spanish), have they finished (primary) school, etc?
10. In the small and medium-sized companies, in the formal as well as in the informal sector, do they have basic knowledge about economy and accounting (from school or University)?
11. Does the knowledge, general and in accounting, differ in different parts of the country?
12. Are there different legal requirements on accounting regarding; size of company, listing or not on the stock exchange, sector, tax regime etc?
13. How do formal, micro, small and medium- sized companies account today and on what do they base their accounting (e.g. on the cash flow, income statement, in order to account the tax)?
14. How is the general attitude towards accounting among Bolivian companies?
15. Do small and medium sized companies have any problems to account, what?
16. To what extent are small and medium sized companies able to obtain bank loans in a commercial bank? Is it more difficult for some companies of for instance different size, in a certain sector, type of business, location?
17. In your opinion, do you think that the requirements of accounting information should differ in different companies regarding:
 - size
 - listing on the stock exchange
 - legal type of business
 - sector
18. Considering that cash flow based accounting has been given much attention internationally, and that it could mean that smaller companies have access to a simpler accounting, could it be possible to demand a cash flow analysis solely from the small and medium sized companies, or at least for the smaller companies?
19. In your opinion, should this information also be sufficient for obtaining bank loans and if not, what reports would these companies have to present as minimum?

Appendix 13 - Interview with Elizabeth Marca, CIOEC, Bolivia

1. What juridical forms do CIOEC and the OECAs have and how are they organised? Is CIOEC a cooperation or a union or another type of organisation? Are the members, i.e. the OECAs cooperations?
2. Are the CIOEC and the OECAs profit or non-profit organisations?
3. How many OECAs does CIOEC have as members? How many companies / agricultural families are they in total?
4. Where are the companies of the OECAs located in the country?
5. Of what size are these companies and what juridical form are they?
6. The companies of the OECAs, are they all formal companies or are there informal ones as well?
7. If there is informal companies we suppose that they wish to enter the formal sector since they are organising themselves. What are the main reasons for informal companies to enter the formal sector? With what purpose do they enter that sector?
8. What level of knowledge do the companies of the OECAs have regarding illiteracy, speaking and understanding of *castellano* (Spanish), primary education, University education, etc?
9. Do they have knowledge of economy and accounting?
10. The members of the CIOEC, to what extent do they account today? How large is the percentage approximately of those how do account?
11. Do the member organisations have difficulties regarding accounting, what?
12. Those companies that do account, do they need external help or can they do it without help?
13. Are there specific recommendations for those companies? If this is the case, how / which organisation is responsible for the recommendations and are they standardised?
14. Are the principles and recommendations (if these exist) easily understandable and accessible for the members of the CIOEC? Are they only in Castellano or in Quechua and Aymara as well?
15. Of what consists the accounting in those companies that today do account, i.e. how advanced is it (e.g. does it consist of balance sheet, income statement, cash flow, etc.)?
16. For what purposes do these companies mainly account (e.g. for paying tax, apply for loans, internal management)?

17. What attitude do the members of the OECAs have towards accounting?
18. Do you think there should be specific, standardised and simpler recommendations in order to facilitate the accounting for certain companies depending on their size, juridical form and sector in which they operate?
19. Suppose that a transparent, trustworthy and standardised accounting system is to be created and implemented in Bolivia, but with less requirements for the micro, small and medium-sized companies. What would, in your opinion, be an acceptable level of requirement of accounting information which one could demand from these companies considering not only the knowledge in those companies but in addition the demand from the principle users of the accounting information (i.e. the state in order to calculate the tax and banks for evaluating the creditworthiness of the companies)?
20. Could it be possible and sufficient to base the accounting on the cash flow if it was supported by a standardised accounting system? If not, which accounting reports should they present as minimum?