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Pawan Adhikari
BODØ UNIVERSITY COLLEGE
and
Frode Mellemvik
BODØ UNIVERSITY COLLEGE

NEPALESE GOVERNMENTAL ACCOUNTING DEVELOPMENT IN THE 1950s AND EARLY 1960s: AN ATTEMPT TO INSTITUTIONALIZE EXPENDITURE ACCOUNTING

Abstract: This paper aims at disseminating knowledge about the evolution of expenditure accounting in the government of Nepal. In doing so, the paper examines emerging ideas in the aftermath of the political change of 1951 in Nepal, and traces the processes of development and institutionalization of expenditure accounting during the course of two decades, the 1950s and early 1960s, with particular reference to the institutional forces at work. An interesting feature of Nepalese accounting reforms before and after the political change was the active participation of India, the United Nations, and the U.S. Agency for International Development (USAID). At the outset of the post-Rana period, Indian advisors dominated the reform process and helped Nepal introduce and incorporate a range of modern administrative measures, including a new budgeting structure called line-item budgeting. The external influence on Nepal's reforms and the ways of installing new values in the administration altered in the second half of the 1950s. The United Nations and the USAID became the major agents in the introduction and institutionalization of rules and practices, especially accounting norms and procedures.

INTRODUCTION

This paper aims at disseminating knowledge about the evolution of expenditure accounting in the government of Nepal. In doing so, the paper examines emerging ideas in the aftermath of

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the political change of 1951 in Nepal and traces the processes of development and institutionalization of expenditure accounting during the course of two decades, the 1950s and early 1960s, with particular reference to the institutional forces at work. The paper draws on institutional mechanisms to describe and analyze how accounting norms and practices evolved and were disseminated in the government of Nepal. In recent years, a significant number of studies have underlined the importance of applying perspectives from institutional theories to provide understanding as to why accounting changes and the ways new accounting ideas are context dependent [Hopwood, 1983, 1987; Miller, 1994; Carmona and Macías, 2001]. This study, focusing on the evolution of expenditure accounting in the government of Nepal, intends a contribution to this literature.

There is little research addressing Nepalese government accounting history. In the context of accounting history, Nepal may be of special interest due to its isolation. The Rana family, who governed Nepal for more than a century under total dictatorship, isolated Nepal from many of the changes taking place throughout the world, even in nearby India. This isolation contributed to the independence of Nepal but, at the same time, pushed the country back to the medieval age in terms of socio-economic development. Consequently, prior to the political change in 1951 that replaced the Rana family with the king, Nepal was a closed, highly illiterate, and very underdeveloped, agricultural-based economy with no industrialization. At the beginning of the 1950s, only 2% of the adult population was literate, less than 1% was engaged in modern industrial occupations, and 85% of employment and income came from agriculture, mostly performed by tenants using archaic methods [Adhikari, 2005].

The decade of the 1950s marked the point of departure as Nepal replaced its policy of isolation with international integration and modernization. As a result, the country appeared on the world's political map as a new nation albeit lagging far behind other open societies both socio-economically and administratively. In the 1950s, substantial efforts were made to introduce new values and techniques in public administration. New state institutions as, for example, the Accountant General's Office (AGO) and the National Planning Commission, were established. According to Joshi [1973], the Rana's policy of disintegrating people from politics and administration had created a dearth of trained personnel who could model and implement the new administrative structures. The lack of resources and technical expertise also meant that Nepal was left with no other alternatives than to rely upon foreign consultants and international grants and aid to fund the process of transforming itself into a modern state. Without international participation, many new initiatives in public administration would have been impossible [Rose and Landau, 1977].

An interesting feature of the Nepalese accounting reforms introduced after the political change was the active participation of India, the United Nations (UN), and the U.S. Agency for International Development (USAID). At the outset of the post-Rana period, Indian advisors dominated the reform process and helped Nepal introduce and incorporate a range of modern administrative measures, including a new budgeting structure called line-item budgeting [Shrestha, 1965; Gongal, 1973; Joshi, 1973]. The external influence on Nepal's reforms and the ways of installing new values in the administration altered in the second half of the 1950s. The UN and the USAID became the major agents in the introduction and institutionalization of rules and practices, especially accounting norms and procedures [Gongal, 1973].

As stated previously, both the methodological approach to the material studied and the reporting structure of the findings is inspired by institutional theories. There are different and sometimes conflicting understandings of what an "institution" is and what constitutes "institutionalization." Selznick [1957] and Berger and Luckman [1967] posit a strong emphasis on issues such as "persistence and stability," "normative and cognitive adaptation," and "a shared social reality" in order to define the construction and continuation of institutions in a particular context. Meyer and Rowan [1977] couple the concept of institutions to a variety of elements connected to the existence of organizational structures. They argue that organizations may choose those requirements and practices that are regarded as valuable in a society, not because they will necessarily result in greater efficiency. Rather, such requirements and practices may be important to demonstrate rationality and modernity in a wider environment [Scott, 1987]. According to Dambrin et al. [2007], organizations attempt to respond to institutional requirements and practices in a number of ways, ranging from active adoption to minimal adoption and ceremonial adoption, so-called "decoupling." In reality, however, organizations do not adapt institutional ideas and practices either following an exact format or in an intended way. Organizations select relevant concepts from a myriad of ideas circulating in their institutional environment and endeavor to translate them in accordance with the specific organizational contexts [Czarniawska and Sevon, 1996; Andersson and Engwall, 2002]. According to this view, the ideas and practices in a particular context may have special flavors and qualities which are supposed to contribute to local constructions.

Our aim in this paper is not to identify the strengths and weaknesses of these different perspectives on institutions. Instead, we argue that an extensive focus on a particular version of institutions may weaken our effort to unfold a picture of the evolution of Nepalese expenditure accounting. Apart from drawing on ideas from these perspectives on institutions, we are also applying DiMaggio and Powell's [1983] idea of how organizations strive to comply with institutional requirements in framing rules and practices, i.e., through coercive, mimetic, and normative mechanisms. This technique of applying institutional theories to understand what has happened when accounting is changed has been fruitfully applied by other researchers [Carmona and Macías, 2001; Carmona and Donoso, 2004].

The remainder of this paper is organized as follows. The following section presents a short introduction to the political and administrative environment in the 1950s. Section three describes the evolution of the budget system. The intent in that section is to create a background for understanding how the crisis in public finance led to the development of expenditure accounting. This development is discussed in the fourth section, with the institutionalization of accounting in Nepal's government covered in the fifth section. Thereafter, there is a theoretical discussion and a conclusion in which the need for further research into the accounting development of the Nepalese government is addressed.

THE POLITICAL AND ADMINISTRATIVE ENVIRONMENT: THE BEGINNING OF A NEW ERA

Nepal was established as a single kingdom in 1768 after the unification of small, desert principalities under the auspices of the shah king, a ruler of one of the principalities. In 1846, taking the benefit of rising internal conflicts among the ruling shah's family members, the Rana family seized state authority from the monarch, inheriting the position of prime minister with unlimited power on the basis of a primogeniture rule of succession. Growing agitation against the autocratic rule inside the country and external developments internationally, especially India's independence and its support of Nepal's democratic process, could be credited with weakening the Ranas' control in politics in the late 1940s. It was within this context that Nepal witnessed a political revolution that ended the century-long dictatorship of the Rana oligarchs. This political change which took place in 1951 introduced the king and political parties into mainstream politics. In fact, a major political agenda in the 1950s was to hold an election for the Constitutional Assembly with the power to establish a multi-party democracy and a constitutional monarchy [Shrestha 1964; Joshi, 1973]. In the aftermath of the political change, however, Nepal experienced unprecedented political unrest due to the failure of this political goal to materialize. The king's unwillingness to delegate authority to the political parties ushered in the start of a period with a strong active monarchy that lasted until the movement for democracy in 1990.

Despite the failure to institutional a multi-party democracy, the political change of 1951 led the country to an era of socio-administrative reforms. However, Nepal's inexperience in public governance, as well as a lack of economic and human resources, implied that the country was not able to cope with the rising demands for modernization. At the outset, Nepal asked for guidance from India in its endeavor to introduce new administrative norms and frameworks [Poudyal, 1991]. Since India had been a part of the British Empire, which Nepal never had been, India's guidance was indirectly influenced by the British. The Indian consultants, as claimed by Gongal [1973], helped the government create bureaucratic administrative machinery such as ministries and departments. Among the Indian consultants, the Buch Committee seemed to be very influential in driving Nepal's administrative modernization [Joshi, 1973].[1] What was striking, however, was a growing conflict between the Indian consultants and Nepalese government officials in subsequent years. According to Joshi [1973], the conflicts escalated because the Indian consultants to a large extent excluded Nepalese officers in the process of implementing the new administrative measures. Seemingly, their intention was to elevate Nepal's dependency on India for resources and technical expertise [IIDS, 1998].

[1] The first batch of Indian consultants that arrived in Nepal just after the political change consisted of senior members of the Indian civil service. They were J.M. Shrinagesh and Birj Narayan. Govinda Narayan and S.K. Sinha accompanied the team after some months. In 1952, India replaced this team by the Buch Committee. The Buch Committee was composed of N.M Buch (then secretary of the Indian Ministry of Home Affairs), K.P. Methrani (Indian civil servant), and S.K. Anand.

The impact of India in the administrative reforms diminished after Nepal extended its diplomatic relationships with other countries. Nepal's membership in the UN in the second half of the 1950s provided the country with an opportunity to introduce itself in an international arena. This seemed to be a turning point in Nepal's ongoing administrative modernization. With increased development grants and aid, the UN and the USAID endeavored to exert their influence over Nepalese administrative reforms. Unlike India, these agencies prioritized the capacity enhancement of Nepalese officials in order to make them acquainted with modern approaches to governance. Joshi [1973] cites the contribution of the UN's advisors and trainers – Walter Fischer, Frederick W. Gray, Eric Himsworth, Howard Kumin, J.F. Luba, Harving L. Nissen, Harry B. Price, Soren Stogaard, Ejler Alkjaer, and Kunt Palmstran – in Nepalese administrative modernization and the capacity development of government officers. According to Gongal [1973], the UN and the USAID had a particular focus on financial-sector reforms. The financial sector was lacking basic infrastructure; for instance, an accounting system and skilled accountants. Moreover, it was conceived as an area hindering the smooth operation of the entirety of Nepalese public administration.

THE EVOLUTION OF THE BUDGET SYSTEM: THE BEGINNING OF FINANCIAL INSTABILITY

As stated previously, the political change embraced a new ideology in Nepal, emphasizing development and modernization in all aspects of socio-economic life. As a result, there emerged a strong body of opinion in favor of managing expenditures, especially development expenditures, more effectively and transparently. Considering Nepalese history, a main concern of financial administration seemed to be confined to revenue management [Adhikari, 2005]. Gongal [1973] argues that a reason for this could be the prerogatives inherited by the rulers to personalize the national treasury, especially collected revenues. Throughout the country's history, the rulers strove to maintain stringent control over the incurring of expenditures and the collection and write-off of revenues. According to Chatterjee [1967], the Rana prime ministers were probably the most notorious illustration in this regard. They maintained financial control coercively that could hardly be found in other South Asian counties. During their century-long tenure, any defaults in public funds or errors in accounting were transferred to the defaulter's successive generations. Gongal [1973, p. 85] notes that, "any default in public funds or errors in accounting was the responsibility not only of the defaulter but also of his heirs up to the seventh generation."

In the altered environment of the 1950s, the budget was conceived as a means of accommodating and managing expenditures in a planned way. One of the specific features of the interim constitution, enacted in 1951, was the incorporation of the budget system and a provision for a financial comptroller. Indeed, the evolution of a budget marked a pivotal milestone in the development of Nepalese financial administration. In 1952, the first budget of the government of Nepal was presented [Sharma, 1996]. Joshi [1973] identifies the role of the Buch Committee in designing the budgetary items and enunciating the idea of forecasting based on previous budgets. The introduction of five-year planning in 1956, however, led to some changes in the budget structures. A system of dual budgeting was then presented by segregating expenditures into regular and development expenditures. While the regular budget mostly included the government's operating costs, the development budget was meant to track international grants and aid.

Himsworth [1959] argues that the budgets issued by the government of Nepal during the 1950s could not be referred to as a "budget" in the sense that the word is understood in western countries. The budget in practice neither reflected fiscal policies nor expenditure control. Salaries, wages, and other expenditures continued to be released in an ad-hoc manner without any reference to the budget document [Pradhananga, 1956]. In fact, what was meant by the budget in Nepal was an abstract of estimated revenues and expenditures that the Ministry of Finance used to prepare by the end of the financial year. Moreover, given the time at which the budgets were prepared, they had no impact on expenditure control. According to Himsworth [1958, p. 39]:

> The budget does not represent in statistical terms the policies of the government for the year. The main object of the budget seems to have been to facilitate the ad hoc agreement to an item of expenditure; for if such item has been anticipated by beingincorporated in the draft document, the officials of the ministry of finance will find it easier to sanction such item of expenditure than if it had not been previously considered when the budget document was compiled. This is the sole practical use of the budget.

Indeed, inadequate knowledge and limited capacity in managing financial administration, a lack of trained accountants and bureaucrats, and the absence of regulations and procedures were the core reasons exacerbating budget practice in Nepal [Himsworth, 1959; Chatterjee, 1967; Wildavsky, 1972; Singh, 1977]. A further acknowledged constraint on the implementation of budget was the presence of the revenue-oriented accounting systems. Bista [1964] argues that the accounting systems in use were proved to be deficient both in terms of design and applicability. Given the design, they were modeled to meet the necessities of a feudal state in which the focus was on maximizing revenues and limiting expenditures. According to Bista [1964], the traditional hand-made accounting forms used in the systems failed to deal with extended public activities and government expenditures funded by international aid. In terms of applicability, the prevailing accounting systems were not integrated with the budget as they were in practice prior to the implementation of the budget system. They failed to offer consistent ways of tracking the movement of cash flows and budget expenditures. Price [1961] states that there was a complete lack of accounting information about the collection and disbursements of government funds pre-1959.

As a result of these weaknesses in the accounting systems, budget implementation remained largely decoupled in practice. Instead of improving financial administration, the introduction of budgets actually weakened accountability and led to financial instability in Nepal. There was growing condemnation of government expenditures and the unsatisfactory state of the government accounts. Such shortcomings rendered it difficult for international organizations to assess the progress of development expenditures offered in the form of grants and aid. It was in response to these concerns that the UN launched a survey, the first of its kind, on the Nepalese financial sector and attempted to find ways to improve the existing financial environment [Himsworth, 1959]. The survey result signaled the need for the replacement of the old accounting systems in order to maintain consistency between accounting and budgeting. H. Price, another UN economic expert, while conducting the economic survey of Nepal in 1961, expressed a more or less similar opinion, emphasizing the need to regulate expenditure accounting in order to improve the fiscal environment [Adhikari, 2005]. By the end of the 1950s and early 1960s, the government was encountering tremendous normative pressure to streamline the operation of its accounting. Griffenhagen-Kroeger [1962] states that accounting-sector reforms became a widespread concern both inside and outside the country. In fact, improvements in the accounting systems were acknowledged as a prerequisite for maintaining control over Nepalese financial administration.

THE SEARCH FOR AND DEVELOPMENT OF BUDGET ACCOUNTING: A COLLECTIVE ENDEAVOR

The reform initiatives mounted in Nepal in the 1960s differed from those attempted in the previous decade. While public administration and budgeting were atop the reform agenda at the beginning of the 1950s, accounting change dominated the reform agenda in the 1960s. While accounting-sector reforms were prioritized, there was a shortage of trained accountants and professional bodies inside the country to help effectuate the proposed reforms. Assistance was therefore sought from international organizations and donor countries. In fact, international agencies were strongly involved in the search for a new accounting. At the outset, Nepal was aided by the UN, whose motive was a desire to bring expenditure under tight control. The USAID dominated the accounting-sector reforms in subsequent years and played a crucial role in the institutionalization of the expenditure-accounting system in the government of Nepal.

The UN appointed J.F. Luba as an accounting advisor for Nepal in the late 1950s [Gongal 1973]. No information about Luba, his prior career, status, and background, was revealed in the Nepalese accounting literature. However, it is assumed that Luba had a career in the UN as a financial consultant. Gongal [1973] states that Luba's task was primarily to aid the government in the setting of financial rules and accounting procedures. The absence of detailed regulations had caused considerable heterogeneity in the recording and reporting of budget expenditures. In 1959, a new financial norm was enacted by covering general procedures for releasing and reporting budgets. In fact, the spending units were proposed to disburse budget allocations on a quarterly basis through appropriate line ministries [Chatterjee, 1967]. Prior to the issuance of this norm, the spending units were provided with money directly through the Ministry of Finance without any reference to the respective ministries. The norm was therefore intended to empower the line ministries by providing a machinery to maintain control over spending on the part of their subordinate units. In addition to budgetary norms, Nepal witnessed, at the same time, an initial effort to reinvigorate its accounting systems. The UN proposed a so-called "payment accounting system," which adhered to a double-entry methodology. The system put a greater emphasis on recording budget expenditures and reporting them to line ministries on a monthly, quarterly, and annual basis. Moreover, it consisted of provisions for freezing unspent money at the end of the budget year and internal auditing to uphold the underlying personal accountability of government officers. In 1960, the three main ministries at that time – the ministries of education, health, and parliamentary affairs – were selected to experiment with this new form of payment accounting. Despite commitment, the UN could not offer adequate experts and trainers who could impart knowledge on these new accounting approaches to government accountants [Pradhananga, 1964; Bhat, 1991]. Price [1961] points out two major factors hindering the experimentation of the payment-accounting system – a shortage of trained accountants and the continuation of deeply rooted, traditional accounting procedures.

Importantly, the failure of payment accounting meant that the accounting-sector reforms remained at the heart of the reform agenda. At the beginning of the 1960s, the Nepalese financial sector witnessed another substantial effort to streamline its accounting. What was striking this time was that, in addition to the UN, the USAID was also involved. On May 12, 1961, an accounting-reform project was formally announced. Chaired by the auditor general, the project consisted of three other members, including the under-secretary of the foreign-aid department of the Ministry of Finance, an accounting expert of the UN, and the public-administration advisor of the USAID (Nepal). In fact, the coming together of the USAID, the UN, and the government heralded the beginning of a new era in Nepalese government accounting reform. Griffenhagen-Kroeger [1962, p. 48] reiterates this fact: "There has been an unusually fine demonstration of coordination through a joint committee, of the accounting talents of the USAID accounting advisor, the staff of the UN, and representatives of His Majesty's Government in working out a new accounting system."

According to Lohani [1964], the members of the accounting-reform project team spent almost six months studying the feasibility of different accounting models that could be utilized in Nepal. On November 3, 1961, the accounting-reform project submitted its report to the finance secretary and the auditor general, recommending a new accounting system referred to as the expenditure-accounting system [Munkarmi and Pradhan, 1993]. This system retained the essential features of earlier payment accounting [Bista and Shrestha, 1996]. An important aspect of the new accounting was the use of the cash principle and the double-entry bookkeeping (DEB) technique [Donnalley, 1967; Gould, 1969]. Referring to the accounting manual, published by the AGO in 1962, "the new accounting system was aimed at strictly maintaining the limitations set by the budget and generating adequate data for the preparation of the forthcoming budgets." We could thus see that the motive of the DEB introduced in Nepal was to achieve greater control over resources, especially development grants and aid. International organizations literally envisaged double instead of single-entry bookkeeping as the means to achieving better accounting.[2]

Moreover, the form of DEB introduced in Nepal appears very much stewardship-oriented. Accounting was maintained at two different levels – the central and operating levels [Shrestha, 1986]. Central-level accounting, which was to be furnished by the ministries and departments, dealt with the transfer of money to spending units in accordance with their budget classifications and their reporting to the Ministry of Finance and the AGO. From this point of view, the purpose of central-level accounting was to scrutinize the accounts submitted by the spending units and then to adjust them in the ministerial or departmental statements [Cooper, 1963]. In contrast, operating-level accounting, which was to be kept by the spending units, aimed at maintaining budgetary limits and recording budget expenditures in accordance with the line items [Cooper 1963; Gould, 1969]. Looking at the structure and content, the principal books kept in operating-level accounting were a cash book, a budget sheet, a journal, and a ledger maintained on the double-entry principle. In addition, a miscellaneous book was also recommended in order to track money paid in advance to employers and contractors [Cooper, 1963].

The accounting system recommended by the accounting-reform project was approved by the auditor general on February 2, 1962 [AGO, 1962]. On July 15, 1962, this new accounting was experimentally employed for the first time in the development programs undertaken in the Kathmandu Valley region [Lohani, 1964]. Because of the importance of interlinking accounting and budgeting while reinforcing the accountability of develop-

[2] Edwards et al. [2002] show a more or less similar reason for introducing DEB in Britain's central government in 1829. Accordingly, achieving a better accounting was seen to involve the adoption of double rather than single-entry bookkeeping and accruals in place of cash-based record keeping and financial reporting (p. 637).

ment expenditures, both the national and international efforts combined in seeking a new accounting. The construction of the new accounting could therefore be seen as a collective endeavor rather than a purely internal exercise. Indeed, the introduction of the new accounting was an important starting point for a modern version of recording and reporting expenditures in Nepalese governmental accounting.

THE INSTITUTIONALIZATION OF THE NEW ACCOUNTING: THE BIGGEST TRAINING PROJECT

According to Donnalley [1967], the simplicity of the new accounting system in managing cash and development expenditures was highly praised by international organizations and donors. This new version of accounting seemed sufficient to meet their information needs [Griffenhagen-Kroeger, 1962]. In spite of the widespread support, the use of the cash-basis principle and the extensive focus on expenditure management highlighted some practical flaws in the accounting system. In fact, the cash basis employed in the new accounting ignored the recording of fixed assets, obligations and commitments, and debtors and creditors. Moreover, the emphasis on expenditures led to a deficiency in accounting for revenues, deposits, public works, and foreign grants [Chatterjee, 1967].

Interestingly, the introduction of the new accounting sparked a debate in the Nepalese political and administrative arena where the relevancy of the double-entry methodology was questioned [Chatterjee, 1967]. The majority of accountants and other government bureaucrats had been recruited by the Ranas based on nepotism and various forms of patronage, as in Britain in the early 19th century [Edwards et al., 2002]. They lacked the formal education and training required for the discharge of their assigned duties. In addition, the accountants were not acquainted with DEB and other new approaches of the system [Gould, 1969]. In the absence of adequately trained accountants and resources, the institutionalization of the new accounting was an arduous endeavor [Fischer, 1958]. This was evident also in the statement of Gould [1969, p. 1], who served as a USAID advisor to Nepal: "Although relatively simple, the system is sufficiently complex to require that the employee maintaining the accounts have some accounting skill and training."

However, the failure of payment accounting had taught some lessons and had delineated the need for an intensive training program prior to the introduction of new accounting techniques and concepts in Nepal. To make the institutionalization successful, the AGO sought assistance from international organizations and donor countries in articulating a training program for government accountants and officers [Bista, 1964]. Within this context, in 1962, an agreement was signed between the AGO and the USAID continuing the accounting-reform project [Donnalley, 1967]. This agreement introduced the new accounting in phases, after conducting an adequate training program for government accountants. Donnalley [1967] observes that the accounting system took longer than expected, more than five years, in order to be institutionalized across the country. However, given the underdeveloped state of public administration in Nepal and the difficulties involved in reforming public accounting, five years could be seen as a rather short period of time. Similarly, Edwards et al. [2002] show that it took considerable time for the full-fledged application of double-entry in Britain. This new system of accounting, experimented with in the Kathmandu Valley region on July 15, 1962, penetrated the entire nation by the end of 1968.

After the agreement was signed with the AGO, the USAID appointed John A. Cooper as an accounting advisor to Nepal [Lohani, 1964]. Cooper was an American career civil servant acquainted with government-accounting models in developing countries. As gauged by Bista [1964], Cooper's role in imparting accounting knowledge to government officers and institutionalizing the new accounting across the country was significant. Cooper guided the AGO in designing the training syllabus and phasing in the entire training program. The training program passed through three distinct stages. At the outset, the government accountants of the Kathmandu Valley region were summoned and offered training. The training was focused on educating them in the approaches to the new accounting, especially recording expenditures in accordance with double entry. At the second stage, a large number of accountants from different ministries, departments, and regional offices were called in for participation. The trained accountants of the Kathmandu Valley region were primarily engaged in disseminating knowledge on the concepts and techniques of the new accounting. In the last phase, all trained accountants were deployed in their home offices to implement the new system of accounting. In addition to training, the USAID organized a series of seminars for other government officers in order to bring them up to speed with the concepts of DEB [Gould, 1969]. As a matter of fact, the USAID Nepal, together with the AGO, performed most of the commitments outlined in the agreement by the end of 1966. This joint accounting project of the USAID and the government turned out to be one of the largest training projects ever conducted in Nepal. Donnalley [1967, p. 2] indicates some of the major tasks completed during the four-year period:

- implementation of the new accounting system in twelve out of the fourteen zones of Nepal
- training of 4,565 accountants through in-service training classes
- facilitating the dispatch of accounting supplies and equipment to government offices in twelve zones
- publication and distribution of the manual of expenditure accounting, the handbook of property accounting, and guidelines for purchase procedures
- making available the first English-Nepali financial dictionary

Not all items contained in the agreement pact between the USAID and the government were accomplished. Standardizing revenue collection, introducing the double-entry methodology for recording revenues, and simplifying budget disbursement were among the processes that waned over time. A consequence of this was that only the expenditure side of the budget was addressed during the training period. The trainers attempted to identify the ways to deal with the recording and reporting of budget expenditures. Gould [1969] observes that Nepal's undeveloped communication and transportation facilities, along with the general low level of accounting knowledge, were the major impediments to operationalize the other items agreed with the USAID. Moreover, these impediments made the continuation of the accounting-reform project an arduous endeavor.

Most notably, the government's failure to motivate the trained accountants was another factor having an adverse impact on the accounting-training project. Gould [1969] notes that a large number of accountants, who were actually the products of the accounting training project, attempted to shift roles and transfer to other administrative sectors. This trend, however, was not due to the fact that the training of government accountants made them more marketable and able to secure better work elsewhere. A core reason was that the accounting profession in Nepal was held in low esteem, and the accountants had few opportunities for career development [Donnalley, 1967]. Accordingly, the supportive facilities of motivation and commitment, as well as the idiosyncrasies of being accountants, were low in comparison to other administrative positions. More interestingly, government accountants were not embedded in the civil-service sector as bureaucrats. As a result, the trained accountants were interested in seeking a transfer to other administrative positions in order to avail themselves of additional tenure, retirement, and promotional advantages unavailable in the accounting sector. Gould [1969] points out that the lack of incentives had been a primary stimulus in promoting a high turnover rate as accounting personnel accepted other administrative positions. Approximately 30% of the accountants starting in the training project were no longer functioning as accountants by the time the training project ended [Donnalley, 1967; Gould 1969]. This shift to another sector created a paucity of skilled accountants despite the success of the accounting-training project.

DISCUSSION: UNDERSTANDING THE EVOLUTION OF EXPENDITURE ACCOUNTING

The decade of the 1950s was a point of departure for the modernization of Nepalese society. As a newly recognized nation on the world's political map, Nepal was distant from other modern societies, lacking fundamental measures of administration and governance. A number of international institutions and experts, particularly from the U.S., the UN, and India, propagated and disseminated modern ideas and patterns to organize and manage Nepalese administration. They attempted to establish a bridge to connect traditional Nepalese society with the outside world, and they contributed greatly to Nepal's quest for resources, stability, and legitimacy in its wider institutional environment. In the financial sector, a new ideology prevailed after the political change that emphasized the management of resources more effectively and efficiently. This transition in financial mentality from revenue to expenditure management meant a focus on budget execution. In this way, the budget and its execution became an institution demonstrating to all relevant external parties that the budget was a means of channeling resources.

Chan [2002, 2003] claims that an extensive focus on budget execution often demands a type of accounting that can measure and communicate budgetary performance. Taking this view into account, the search for a new accounting in Nepal in the 1950s and early 1960s could be seen as an endeavor to bring about control in the financial sector. Accounting, in that changed environment, was supposed to be conducive to executing budgets and maintaining their limitations. The prevailing accounting systems were, however, premised on the ideology of managing revenues. Indeed, they were not designed to cope with expenditure planning and management. It was this factor that led to financial crisis in Nepal and resulted in international attention and participation in accounting-sector reforms.

The construction of the new accounting was a collective endeavor, incorporating the efforts of external agencies, particularly the UN, the USAID, and the Nepalese government. A lack of resources, experience, and expertise forced Nepal to request collective participation in the development of the new accounting. Despite international cooperation, the Nepalese environment, characterized by a low level of education and an underdeveloped infrastructure, played a significant role in altering the original accounting ideas and intended outcomes. According to Donnalley [1967], the new accounting system was distinct in comparison to the British and European models in spite of applying the principle of cash accounting and adopting DEB. The main difference was that unlike Britain and other European countries, DEB was applied in Nepal only for recording expenditures. The main purpose for DEB in Nepal was to achieve more effective control of budget expenditures, especially those expenditures sponsored by international organizations. As a result, the accounting for revenues, deposits, public works, and other important budgetary components continued in the traditional manner of single-entry bookkeeping, resulting in inconsistent methods prevailing throughout the governmental sector [Shrestha, 1986].

When considering the institutional mechanisms, the predominant role of the mimetic and normative mechanisms could be envisioned in the process of institutionalizing the new accounting. Indeed, the mimetic process had been the dominant institutional force, especially at the beginning of the 1950s. In the process of a transition from feudalism towards modernity, Nepal incorporated a rationalized administrative apparatus and a number of financial measures, such as the line-item budget. To be more specific, this was probably the only way to initiate administrative reforms because Nepal was lacking in both expertise and resources. In addition to this, the country was not exposed to its institutional environment, comprising donors and international organizations. The normative institutional determinant seemed to be a potent force, especially after Nepal's admission to the UN in the second half of the 1950s. Many of the former financial structures, including the accounting systems, were literally the results of the joint projects undertaken with the UN and the USAID. These organizations contributed to implementing the reforms not only by offering resources and expertise but also by facilitating the training of Nepalese accountants and officers in the new accounting approaches and techniques. The existence of coercive mechanisms could not be denied since Nepal was largely dependent on the UN and the USAID for facilitating the reforms. In fact, it was important for Nepal to comply with the requirements of these organizations in order to secure resources and technical assistance. However, given the prevailing primitive conditions characterized by the lack of resources, trained personnel, and administrative apparatus, both the USAID and the UN collectively participated in the reform process rather than exerting pressure to enforce their ideas and recommendations. Their participation was meant to ensure that Nepal made the necessary accounting changes. The impact of the coercive mechanisms therefore seemed less potent in Nepalese government accounting reforms. As stated by Fein and Mizuchi [1999] and Carpenter and Feroz [2001], identification of one type of determinant for change at a particular point in time does not necessarily imply that the remaining two are absolutely ineffective. Whether this is the case or not, a conclusion can be drawn from Nepalese government accounting development that the pattern of institutionalization favored the more mimetic and normative forces.

CONCLUSION

This paper has examined an interesting and important episode in the history of Nepalese governmental accounting – an attempt to introduce and institutionalize expenditure accounting. The episode covered occurred in the period of transition from feudalism to modernity, a period when there was a shift of ideology in the financial sector from managing revenues to controlling expenditures. We have therefore endeavored to address events during a time of change and to examine the forces at work. Institutional perspectives have been applied in describing the development of expenditure accounting and discussing the role of international organizations and donor countries in Nepal's accounting development. In fact, government accounting development in Nepal demonstrates a clear link between accounting and its operating institutional environment. A Nepalese attempt to develop an expenditure-accounting system, which was also credited with evolving a modern approach to accounting and reporting, is seen as a response to demand expressed by the changing socio-political and institutional environment. The influence of external institutional factors, particularly the USAID and the UN, was notable in institutionalizing and disseminating the accounting concepts and techniques in the Nepalese formal structures. Indeed, the paper demonstrates that in order to comprehend the evolution of Nepalese expenditure accounting, a special reference to the existing context and institutional environment was a prerequisite.

Despite the effort to unveil Nepalese governmental accounting development, the paper has also opened up an avenue for further research, especially after the institutionalization of the new accounting in the late 1960s. The accounting development in Nepal reflects the fact that the extensive focus on budget expenditures allowed the USAID and UN to ignore many other important aspects of the budget and budgeting. As a result, several gaps were envisaged in the newly institutionalized accounting which forced the government to put an emphasis on the continuation of accounting-sector reform. Current accounting in the government of Nepal is an extended version of the expenditure accounting of the 1960s, with supplementary provisions on accounting for revenues, deposits, construction contacts, and foreign aid. Particular issues that need addressing by further research include how the government continued the accounting-sector reforms, and whether, how, and to what extent the institutional factors contributed to expanding the scope of expenditure accounting. Further exploration of the continuation of the U.S. and the UN's involvement in the Nepalese accounting-sector reforms would also be interesting. It would be informative to see whether the UN and/or the USAID have performed similar services in other developing countries.

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