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The (Non-) Relationship Between IPSAS and Foreign Direct Investment

ABSTRACT

Objective: This research investigated the relationship between the adoption of International Public Sector Accounting Standards (IPSAS) and Foreign Direct Investment (FDI) inflows.

Method: A data panel comprising 352 observations from 32 countries that account for around 80% of global FDI was analysed applying the Generalized Method of Moments (GMM-Sys) method.

Originality/Relevance: Based on empirical evidence, the results underline that the adoption of IPSAS does not appear to be a significant strategy for increasing credibility with international investors and attracting FDI. This conclusion advances the academic debate on the benefits, critiques and consequences of adopting IPSAS.

Results: The results of the five GMM-Sys estimates show that the adoption of the IPSAS did not lead to a significant increase in the FDI inflows of the countries in the sample.

Theoretical/Methodological contributions: From an academic perspective, this research adds evidence on the effects of IPSAS on economies, and also raises discussion on the assumption in previous studies which assume benefits from the adoption of IPSAS in the form of increased foreign investment.

Social/Management contributions: For public managers and policymakers, this conclusion suggests that the adoption of IPSAS within a government reform strategy intended to obtain foreign resources should be considered with caution, so that other institutional factors appear, at this point, to be more effective.

Keywords: International Public Sector Accounting Standards (IPSAS), Foreign Direct Investment (FDI), Resource Dependency Theory, Generalised Method of Moments.

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1 INTRODUCTION

International Public Sector Accounting Standards (IPSAS) have become a trend in the public sector. Based on the New Public Management (NPM) paradigm, the IPSAS have gained relevance over the years and attracted the attention of researchers, professionals and public managers, especially in the last decade (Bisogno et al., 2022). Since 2015, a strong international movement to adopt IPSAS by countries has taken place (Christiaens et al., 2015). Different world economies, from developed to emerging countries, have made efforts to implement them (Tawiah, 2023a).

Accounting reforms focusing on financial reporting were established as a means of obtaining institutional legitimacy (Sellami & Gafsi, 2019). These reforms were aimed at improving the efficiency and effectiveness of public service delivery, modernising public management through the provision of information that improves decision-making and accountability (Benito et al., 2007). However, although 60% of the member countries of the International Federal of Accountants (IFAC) have adopted the IPSAS, many have implemented them without being fully convinced of their usefulness and their potential to deliver what they promise, driven only by the desire to improve public governance (Castañeda-Rodriguez, 2022).

Considering the state of the art on IPSAS, Schmidhuber et al. (2020) highlighted the need to identify the effective results that their adoption can bring to economies. Recent studies have found benefits from adopting IPSAS, such as a positive influence on governance quality (Cuadrado-Ballestreros & Bisogno, 2021; Tawiah, 2023a) and by constraining corruption in developing countries (Hamed-Sidhom et al., 2022; Tawiah, 2023b). There is also evidence that IPSAS adoption can reduce economic policy uncertainty (Hesarzadeh & Behbahaninia, 2022), as well as increase debt financing (Tawiah & Soobaroyen, 2022).

However, IPSAS have also received criticism, especially regarding their implementation costs and lack of alignment with the purpose of the public sector (Fahlevi et al., 2022; Van Schaik, 2023). Some studies have not identified a significant relationship between IPSAS and aspects such as fiscal transparency and accountability (Castañeda-Rodríguez et al., 2022) or have not observed differences in aspects such as indebtedness, efficiency, and electoral participation (Dorn et al., 2021). Negative effects of IPSAS have also been observed due to their complexity and arbitrariness (Bonollo, 2022).

Government reforms, such as IPSAS, can be strategically adopted to improve the economic scenario (Saini & Singhania, 2018). One of the results expected for countries' economies from IPSAS adoption is an increase in Foreign Direct Investment (FDI) (Egolum & Ndum, 2021; Sellami & Gafsi, 2019). It is argued adopting IPSAS can attract FDI both by improving the quality of countries' financial reporting and by reducing corruption (Sellami & Gafsi, 2019). While the absence of accounting standards, such as IPSAS, can reduce trust in governments, negatively influencing the receipt of FDI and, consequently, restricting the country's economic growth and development (Egolum & Ndum, 2021).

FDI has evolved as the most significant area of international business, increasingly attracting the attention of both academics and public managers (Paul & Feliciano-Cestero, 2021). Previous studies indicate the relevance of FDI for economic growth of the host countries (Akisik et al., 2020). Evidence on the benefits of FDI includes increased productivity (Peres et al., 2018; Chamisa, 2020); employment generation (Chamisa, 2020; Kariuki, 2015; Peres et al., 2018); access to new technologies (Panigrahi & Panda, 2012); management skills; financial resources (Kariuki, 2015); marketing (Kariuki, 2015; Panigrahi & Panda, 2012); access to international markets (Panigrahi & Panda, 2012); profit reinvestment (Saini & Singhania, 2018); and new capital inflows (Chamisa, 2020).

Accounting reforms such as the international accounting standards IFRS and IPSAS have been seen as a policy adopted by countries to attract international investment (Bakre et al., 2022). Considering accounting standards as important elements of a country's institutional structure that can reduce information processing costs for foreign investors (Chen et al., 2014; Fisseha, 2023), recent studies have been dedicated to assessing the influence of IFRS adoption on countries' FDI flows, mostly finding a positive effect (Akisik et al., 2020; Chen et al., 2014; Fisseha, 2023). However, little is known, based on empirical evidence, about the relationship between IPSAS adoption and FDI. Thus, this research analysed the relationship between the adoption of IPSAS by countries and FDI inflows.

The relevance of this research lies in the gap left by previous studies which, despite pointing to this possible effect (Egolum & Ndum, 2021; Sellami & Gafsi, 2019), have still not empirically confirmed this relationship. By responding to the call by Schmidhuber et al. (2020) for more studies that empirically clarify the real effect of IPSAS adoption in countries, this approach provides evidence that can help public managers and policymakers (re)evaluate the adoption of IPSAS based on their expected effects on national economies.

From a Resource Dependence Theory perspective, countries aware of their structural and financial resource needs can use public sector accounting reforms, such as IPSAS, to convey confidence and legitimacy on the international market, thus attracting FDI (Bakre et al., 2022; Christiaens et al., 2015). To evaluate this hypothesis, this study employed the Generalized Method of Moments (GMM-Sys), with dynamic models for panel regression (Arellano & Bond, 1991; Blundell & Bond, 1998).

2 THEORETICAL FRAMEWORK

2.1 IPSAS Adoption

In search of a common public accounting language, many countries have decided to reform their accounting policies. In this scenario, the International Public Sector Accounting Standards Board (IPSASB) emerged as an alternative and reference for a process of international harmonisation of public sector accounting standards through the issuance of IPSAS (Benito et al., 2007). However, many countries resist this adoption, due to political and ideological issues (Hyndman & Connolly, 2011), cultural reasons (Oulasvirta, 2014), and the cost of financial and human resources to promote this system (Tawiah & Soobaroyen, 2022). Other countries consider their current public accounting system to be adequate and have not perceived reasonable incentives for convergence because they are developed countries (Oulasvirta, 2014).

Recent studies show the positive aspects of adopting these standards. Cuadrado-Ballesteros and Bisogno (2021) analysed the member countries of the Organization for Economic Cooperation and Development (OECD) and observed that the countries that implemented IPSAS demonstrated a higher level of governance quality, which indicates a positive influence on aspects such as accountability, government effectiveness, and corruption control. Tawiah (2023a) revealed that the IPSAS increased governance quality in developing countries, especially in terms of transparency and accountability.

Hamed-Sidhom et al. (2022) and Tawiah (2023b) indicated that the adoption of IPSAS is a factor limiting corruption in developing countries and, according to Cuadrado-Ballesteros et al. (2020), corruption decreases as governments make progress in public sector accounting reforms. For Shehadeh (2022), the adoption of the accrual regime based on IPSAS in Jordan has improved the management of assets and liabilities, decision-making, comparability and control of public accounts.

Although most studies indicate that IPSAS induce good governance, others question the discretionary nature of the standards' subjective points (Fahlevi et al., 2022; Van Schaik, 2023), which may, for example, lead to earnings management (Bonollo, 2022). Castañeda-Rodríguez et al. (2022) identified that accrual accounting is positively and significantly associated with fiscal transparency and accountability; however, they did not detect an association between the degree of IPSAS adoption and these variables.

Meanwhile, Schmidhuber et al. (2020) found that financial crises and elevated levels of public debt are seen as warning signs that point to the need to change the current accounting systems of countries and international organisations. Since financial reports provide information that supports better decision-making and the management of public resources. Furthermore, the effort to adopt the IPSAS represents international legitimacy (Sellami & Gafsi, 2019). For this reason, given the arguments that the ultimate goal of adopting IPSAS is to promote economic improvements (Bakre et al., 2023), it is relevant to analyse the effects of this adoption on aspects such as attracting FDI.

2.2 Resource Dependency, FDI and IPSAS

Resource Dependence Theory (Pfeffer & Salancik, 1978) assumes that organisations are dependent on the environment and, when they recognize that they are not self-sufficient, they develop strategies, make adjustments, and form alliances to guarantee the resources necessary to survive (Lopes, 2017). The resource dependency theory can also be applied to the reality of the public sector and is particularly relevant for analysing the financial management reforms promoted by countries, especially when governments are limited by actors on whom they depend for resources (Cohen & Karatzimas, 2018).

Looking at countries as organizations, public managers recognize FDI as a resource that can boost the country's economic development (Tocar, 2018; Biro et al., 2019). Although the benefits of FDI are more noticeable in developing economies, foreign capital flows also

benefit developed countries (Saini & Singhania, 2018). While developing countries need foreign capital for growth and investment purposes, foreign capital flows to developed countries represent a competitive advantage for their sustainable development (Saini & Singhania, 2018).

FDI inflows can stimulate economic growth by increasing tax and foreign exchange revenues and filling the domestic resource gap in host countries (Peres et al., 2018). Considering FDI as an important driver for economic development, different government leaders seek to design their policies to attract more capital flows (Saini & Singhania, 2018). Similarly, research has sought to identify factors that stimulate or restrict its attractiveness, such as economic, political (Saini & Singhania, 2018; Tocar, 2018), cultural, human resources, infrastructure, technology (Tocar, 2018) and governance characteristics (Biro et al., 2019).

Corruption (Freckleton et al., 2012), the country's governance (Mengistu & Adhikary, 2011; Peres et al., 2018), and political uncertainty (Hesarzadeh & Behbahaninia, 2022) play a significant role in FDI inflows. Corruption can reduce the FDI inflows (Freckleton et al., 2012), and FDI is also sensitive to governance and political uncertainty, i.e. the country's political risk, in view of investors' property rights and information asymmetry (Hesarzadeh & Behbahaninia, 2022; Mengistu & Adhikary, 2011). In view of the resource dependency theory, countries develop strategies such as government reforms to attract FDI (Saini & Singhania, 2018). Given that the macroeconomic scenario impacts companies' ability to generate cash flow, a better institutional framework promotes a more stable environment, thus attracting FDI (Peres et al., 2018).

Accounting standards and the quality of financial statements are seen as essential to a country's institution (Fisseha, 2023), as they are elements of the institutional infrastructure that can reduce information processing costs, especially for foreign investors (Chen et al.,

2014). Countries have been encouraged to adopt international accounting standards, such as IFRS and IPSAS, to gain international legitimacy with foreign investors (Bakre et al., 2023; Sellami & Gafsi, 2019). IPSAS adoption can convey confidence and assurance to foreign investors regarding the macroeconomic environment (Hesarzadeh & Behbahaninia, 2022).

Empirical evidence supports this view. Tawiah (2023a) analysed the adoption of IPSAS in 107 countries and identifies that their adoption has a positive and significant impact on the quality of governance. Public accounting systems, such as IPSAS, tend to improve the accountability of those in power, promoting increased transparency and comparability of information (Tawiah, 2023a). Later, Tawiah (2023b) showed that transparency and comparability, which are facilitated by IPSAS, contribute to limiting corruption in countries, especially in developing ones. Besides, Hesarzadeh and Behbahaninia (2022), based on a sample of 22 countries, revealed that the implementation of IPSAS reduces economic policy uncertainty. They argue that these standards can increase the efficiency of macroeconomic policies, such as fiscal and monetary policy, thus promoting economic policy stability (Hesarzadeh & Behbahaninia, 2022).

Tawiah and Soobaroyen (2022) suggest that IPSAS adoption may be a government strategy to secure more funding from international markets and institutions. Countries can adopt IPSAS due to a need for resources, informing international markets that they are willing to make internal reforms to obtain funding, subsidies and foreign investment (Sellami & Gafsi, 2019; Tawiah & Soobaroyen, 2022). The choice of governments to adopt certain accounting standards can be explained by the resource dependency theory (Carpenter & Feroz, 2001). From a resource dependence theory perspective, Christiaens et al. (2015) argue that IPSAS adoption for emerging economies can be explained by the fact that these countries need funds from international financial institutions, such as the International Monetary Fund (IMF), which encourages IPSAS adoption.

The idea that the IPSAS adoption could increase FDI inflows is based on the argument that (non-)confidence in the host country influences FDI attractiveness (Egolum & Ndum, 2021). Previous publications have claimed that IPSAS adoption, by improving financial management, governance, transparency, accountability and the fight against corruption, would favour FDI inflows (Egolum & Ndum, 2021; Saleh et al., 2021). These expectations are amplified by evidence that countries that have adopted IFRS as an accounting standard for private organisations have shown an increase in FDI flows (Akisik et al., 2020; Chen et al., 2014; Fisseha, 2023). However, the benefits of the IPSAS may not be easily evident in the short term, given the difficulties involved in their implementation (Tawiah & Soobaroyen, 2022). For example, Bakre et al. (2023) did not show that the adoption of IPSAS in Nigeria was relevant to reducing corruption.

In light of the above, it is argued that the prospect of the beneficial effects of adopting IPSAS can generate international legitimacy, a factor that can contribute to the investors' trust and credibility. In this respect, and considering that resource dependence can lead countries to adopt IPSAS, this article proposes the following hypothesis:

H1: The adoption of IPSAS has a positive and significant effect on FDI.

3. METHODS

3.1 Research Sample

32 developed and emerging countries were selected for the study. This sample, based on Gani (2007) and corresponding to similar studies such as Saini and Singhania's (2018), was composed of 12 developed countries — which correspond to the greatest FDI attraction powers — and 20 emerging countries, considered as such by the IMF (IMF, 2023). According to the United Nations, the 32 countries in the sample represent 79.89% of worldwide FDI in 2021 (United Nations Conference on Trade and Development [UNCTAD], 2023). The

countries in the sample are also members of the IFAC, which makes it possible to extract information on the status of IPSAS adoption.

The countries selected for the sample and their IPSAS adoption status can be seen in Table 1.

Table 1

Countries in the sample and their IPSAS adoption status

IPSAS status	Countries		
	Emerging		Developed
Full Adoption	Saudi Arabia	United Arab Emirates	New Zealand Switzerland
	South Africa	India	Australia
Partial Adoption	Brazil	Indonesia	Canada
	Chile	Malaysia	Israel
	Colombia	Mexico	United Kingdom
	Philippines	Thailand	Singapore
	Hungary	Türkiye	
			Germany
Do not adopt	Argentina	Poland	United States
	China	Russia	France
	Egypt	Vietnam	Italy
			Japan

Source: IFAC and IMF

Christiaens et al. (2010) showed that accounting reform in the public sector has been on the agenda of several countries since 2010. Therefore, the period for this study covers the years from 2010 to 2021, which is the last year with complete data regarding the employed variables. Data referring to economic indicators were collected directly from the database of two international organisations. From the World Bank database, the TRADE and GROWTH variables were collected following the steps: data and research; by indicator; economy and growth indicators; and private sector indicators.

From the United Nations database (UNCTAD, 2023) the variables FDI and FDI t-1 were collected following the steps: Statistics; data centre; balance of payments; Foreign Direct Investment; Inward; and Flow. The CPI was collected from the Transparency International database. To verify IPSAS adoption status, the profile of the members who had

the IPSAS adoption status recognized by IFAC was consulted on the institution's website, as well as in the studies by Castañeda-Rodriguez (2022) and Tawiah (2023b).

3.2 Research Variables

3.2.1 Dependent variable and control variables

The dependent variable in this study is FDI. As stated in the theoretical framework, attracting FDI is desired by countries due to its potential benefits for national development. Previous studies have analysed the determinants of this phenomenon. Adhikary (2017) explains that the determinants of FDI can be specific to each country and, to a certain extent, specific to each statistical method. It is recognised that the determinants of FDI are multifaceted and that there is no absolute consensus on which factors play a major role. However, this study adopts variables widely cited in the literature, including trade openness, economic growth, corruption and FDI from the previous year. Given that these variables can influence the dependent variable, they were considered as control variables in the econometric model of this research.

Trade openness leads to the promotion of free trade and good trade practices or policies that can reduce the transaction costs of investment by addressing certain restrictions on the inflow of goods and services (Tocar, 2018). More open trade expands the flow of goods and services, attracting more investment (Adhikary, 2017; Chamisa, 2020; Kariuki, 2015). Significant relationships between FDI and trade openness were reported by Aw and Tang (2010), Chamisa (2020), Gani (2007), Iamsiraroj, (2016) and Saini and Singhania (2018).

Economic growth is an indicator of productivity, which represents greater market potential in the host country (Adhikary, 2017; Tocar, 2018) - therefore, slow growth can discourage the FDI inflow (Kariuki, 2015). In this regard, there is recurrent evidence linking FDI and economic growth (Gani, 2007; Saini & Singhania, 2018). The literature has

identified a bidirectional relationship between FDI and economic growth, which suggests that the growth of the host country can influence and be influenced by FDI inflows (Iamsiraroj, 2016). In this regard, this research considered an endogeneity scenario in the econometric procedures.

Corruption is seen as a negative factor from a governance perspective and, therefore, becomes a key factor for FDI decisions. (Hasan et al., 2017). Previous research indicates a negative relationship between corruption and FDI in distinct locations, such as Malaysia (Aw & Tang, 2010), India (Hasan et al., 2017) and Southern Africa (Chamisa, 2020). However, no significant relationship between FDI and corruption has been reported for Central and Eastern Europe (Iloie, 2015) and developing economies (Peres et al., 2018).

Foreign investors may be willing to invest in a country that has already received FDI in the past, since this is an indicator that the country is open to negotiating with other nations (Delgado et al., 2014; Kariuki, 2015). This also can be explained by the fact that FDI can be seen as a long-term decision by the grantor, as it can involve a high amount of capital (Saini & Singhania, 2018). Previous studies have shown a positive and significant relationship between current FDI and previous FDI, such as Kariuki (2015), Peres et al. (2018) and Saini and Singhania (2018).

3.2.2. Variable of interest

Tawiah and Soobaroyen (2022) explain that adopting IPSAS can signal significant changes in the institutional setting of the adopting country, conveying confidence to international creditors and investors and, consequently, favouring foreign resources. It is claimed, therefore, that one of the benefits that can be obtained from adopting IPSAS is FDI inflows. From this perspective, foreign investors could be attracted to invest in companies whose countries seek to gain legitimacy on the international stage through government

reforms, such as IPSAS implementation. Thus, IPSAS adoption is expected to be positively related to FDI inflows.

On this point, this research considers whether or not countries adopt IPSAS. This methodological approach is also applied by Sellami and Gafsi (2019), in which the variable of interest was analysed in two groups: (i) countries that adopt IPSAS (either partially or fully) and (ii) countries that do not adopt IPSAS. This approach is also justified by the sample profile, since the small number of countries that fully adopt the IPSAS (Table 1) could compromise this analysis. Table 2 shows all the research variables, with their respective acronyms, measurement methods, expected signal and literature references.

Table 2

Research variables

Variables	Measurement	Expected signal	References
Foreign Direct Investment (FDI)	Net inflows into the reporting economy of foreign direct investment, divided by GDP		Delgado et al. (2014); Hasan et al., (2017); Saini and Singhanian (2018).
IPSAS adoption (IPSAS)	Dummy variable: (0) not adopted, (1) adopted in part or in full	(+)	Sellami e Gafsi (2019)
Trade Openness (TRADE)	The sum of merchandise exports and imports divided by GDP	(+)	Adhikary (2017); Kariuki (2015); Saini and Singhanian (2018)
Corruption (CPI)	Corruption Perception Index (CPI), which ranges from 0 to 100, with higher values indicating low corruption perception	(-)	Chamisa (2020); Hasan et al. (2017); Tawiah (2023b); Tocar (2018)
Annual GDP growth (GROWTH)	GDP annual percentage growth rate at market prices, based on constant local currency	(+)	Adhikary (2017); Saini and Singhanian (2018); Tawiah (2023a).
Lagged FDI (t-1)	Lag of one period of the dependent variable	(+)	Kariuki (2015); Peres et al. (2018); Saini and Singhanian (2018)

3.3. Econometric Procedures

The data analysis employed the Generalized Method of Moments (GMM-Sys) (Arellano & Bond, 1991; Blundell & Bond, 1998). Dynamic models for panel regression using GMM-Sys consist of an advanced and robust econometric method that helps to deal with issues such as endogeneity and autocorrelation (Blundell & Bond, 1998; Roodman,

2009). Previous studies investigating FDI have also used this method (Delgado et al., 2014; Islam et al., 2020; Saini & Singhania, 2018).

Generalized Method of Moments (GMM-sys) is often preferred instead of traditional panel data estimations, primarily due to its robust handling of endogeneity, a common issue arising from omitted variables in econometric estimations (Ozkan, 2001). Traditional methods tend to fail in dealing with endogeneity that stems from unobserved variables and simultaneous causation between explanatory and dependent variables (Bournakis & Mallick, 2018). It is feasible in addressing endogeneity caused by both omitted variables and simultaneity, thereby enhancing the validity of the model's estimates.

The reliability of GMM-sys estimations depends on three diagnostic verifications. First, the necessity to confirm the absence of second-order autocorrelation in the model residuals (Arellano & Bond, 1991), as the null hypothesis posits no presence of this autocorrelation. This means that low p-values will indicate presence of residual autocorrelation. Second, verification of exogeneity of the instrumental variables through the Hansen J-test, where the null hypothesis asserts that the instruments are validly exogenous (Hansen, 1982). Low p-values will indicate that instruments are not exogenous. Third, the model's instrument count must remain fewer than the number of observational units (in this investigation, countries), to avoid overfitting and instrument proliferation. Jointly, these diagnostics may concur the robustness of GMM-sys estimates (Roodman, 2009).

GMM-sys estimations are well-suited for causal analysis in econometric studies regarding endogeneity concerns. Different to traditional estimators, GMM-sys employs lagged instruments that aim to control omitted variable bias and reverse causality. Additionally, GMM-sys incorporates lagged dependent variables to capture dynamic causation between past and current values, which is critical in studying the effect of IPSAS adoption on FDI inflows over time. The application of robust diagnostic checks, as previously

described, will provide technical support to validate estimations regarding IPSAS coefficients and corroborate to provide inferences considering the hypothesis developed.

The baseline model is expressed as follows:

$$FDI_{i,t} = \beta_0 + \beta_1 FDI_{t-1} + \beta_2 IPSAS_{i,t} + \beta_3 TRADE_{i,t} + \beta_4 CPI_{i,t} + \beta_5 GROWTH_{i,t} + \beta_6 YEAR_{i,t} + \varepsilon_{i,t}$$

where:

FDI: Foreign Direct Investment; β_0 : Intercept; β_1 : FDI_{t-1} : lagged FDI; β_2 : $IPSAS_{i,t}$: IPSAS Adoption; β_3 : $TRADE_{i,t}$: Trade openness; β_4 : $CPI_{i,t}$: Corruption; β_5 : $GROWTH_{i,t}$: Annual GDP growth; β_6 : $YEAR_{i,t}$: Dichotomic variables for the annual period from 2010 to 2021; ε : Regression error term.

The main interest of this study is the result of the coefficient associated with the variable $IPSAS_{i,t}$. A positive result is expected. Thus, it is a right one-tailed hypothesis test ($H_0: \beta_1 \leq 0$ and $H_1: \beta_1 > 0$). Null hypothesis will be rejected only with low p-values associated to the coefficients. Hence, it would be coherent to the established hypothesis that the adoption of IPSAS has a positive effect on FDI.

4 RESULTS AND DISCUSSION

4.1 Descriptive statistics

In 2021, global FDI moved around US\$1.58 trillion. The 12 developed countries in the survey sample received 43.7% of the total FDI transferred in the world in 2021, while the 20 emerging countries in the sample added up to 36.2% of that amount. The developed country with the highest FDI flow percentage is the United States (23.22%), followed by Singapore (6.26%) and Canada (3.77%), while the developed country that received the lowest FDI flow was Switzerland (0.06%).

As for the emerging countries, the top FDI-received countries in the year were China (11.43%), Brazil (3.18%), and India (2.82%), while the lowest FDI-receiver emerging country

was Egypt (0.32%). Table 3 presents the descriptive statistics based on central tendency and dispersion measures.

Table 3

Descriptive statistics

Variables	Mean	Median	Standard Deviation	Minimum	Maximum
FDI	0.02798	0.02033	0.04300	-0.21433	0.28398
TRADE	0.65058	0.46384	0.48308	0.17820	2.77526
CPI	0.45820	0.43000	0.27062	0.00000	0.91000
GROWTH	0.02983	0.02899	0.03494	-0.11031	0.14520

As for the IPSAS variable, 65.6% of the 32 countries adopted the standards. Of these countries, 13% fully adopt these standards without modifications, while 52.6% partially adopt them, which means that they have modified the standards for the local context or have not yet adhered to all the guidelines of the standards (Tawiah, 2023b). Non-adopters represent 34.4% of the sample. The summary of countries by adoption status is presented in Table 1. The dominant status of IPSAS adoption in countries as partial adoption is consistent with what was observed in previous studies (Cuadrado-Ballesteros & Bisogno, 2021; Hesarzadeh & Behbahaninia, 2022).

4.2 Main Results

Table 4 presents seven variants of the baseline model to systematically assess its robustness. Table begins with Estimation (1), which includes only FDI_{it-1} and $IPSAS_{it}$ as endogenous variables. Estimations (2), (3), (4) and (5) each introduce an additional single variable incrementally.

Finally, estimation (6) incorporates all variables in the model and (7) an interaction variable considering economic expansion and IPSAS adoption. This progression is designed to observe potential shifts in the significance of the $IPSAS_{it}$ estimator (β_2) and to assess parameter viability for validating the GMM-sys approach in terms of residual autocorrelation, instrument exogeneity and the sufficiency of instrument count.

Table 4

GMM-Sys estimations for the FDI

Variables	-1	-2	-3	-4	-5	-6	-7
FDIit-1	0.68413*** (0.09857)	0.69684*** (0.10065)	0.69703*** (0.10072)	0.69477*** -681400	0.69555*** (0.10231)	0.73769*** (0.13049)	0.71879*** -598395
IPSASit	0.00304 (0.00221)	0.00190 (0.00134)	0.00195 (0.00138)	0.00179 (- 135416)	0.00179 (0.00137)	0.00138 (0.00119)	0.01242 (0.64062)
Tradeit		0.00851*** (0.00296)	0.00853*** (0.00309)	0.00811*** (-272600)	0.00803*** (0.00308)	0.00655*** (0.00375)	0.00588 (0.79135)
CPIit			-0.00037 (0.00468)		0.00072 (0.00472)	0.00028 (0.00371)	0.00342 (0.30920)
Growthit				0.05153 (- 149702)	0.05190** (0.03392)	0.03844*** (0.02510)	0.78390 (0.65275)
Growth_IPSASit							-(0.43456) (0.69108)
<i>Year dummies</i>	Sim	Sim	Sim	Sim	Sim	Não	Sim
Constant	0.00552 (- 117196)	0.00311 (0.64340)	0.00326 (0.58119)	0.00238 (0.48263)	0.00205 (0.36458)	-0.00120 (- 0.54656)	-0.01304 (- 0.34395)
Observations	352	352	352	352	352	352	352
CI	[-0.00130; 0.00738]	[-0.00072; 0.00453]	[-0.00075; 0.00464]	[-0.00080; 0.00438]	[-0.00089; 0.00446]	[-0.00094; 0.00371]	[-0.02558; 0.050425]
Countries	32	32	32	32	32	32	32
VIF	1.69	1.71	1.79	1.87	1.96	1.23	3.08
Instruments	23	24	25	25	26	16	26
F-test (p-value)	0.000	0.000	0.000	0.000	0.000	0.000	0
AR (1)	0.075	0.077	0.076	0.077	0.077	0.078	0,076
AR (2)	0.682	0.673	0.673	0.647	0.648	0.637	0,857
Hansen	0.475	0.473	0.480	0.490	0.490	0.548	0,83

Notes: Table 4 shows the GMM-Sys result for the dependent variable FDI, with the development of the model. CI indicates Confidence Interval at 5% related to $IPSAS_{it}$ estimation. VIF discloses average variance inflation factor for each model. The values in brackets correspond to standard errors. Standard-errors estimations oriented by robust two-step command. ***Significant at the 1% level; **Significant at the 5% level; *Significant at the 10% level. Source: Research data.

Table 4 also presents that the average variance inflation factor (VIF) does not indicate multicollinearity within variables of the model. The diagnostic tests conducted to assess the reliability of the GMM-Sys estimations indicate that the p-values associated with the second-order autocorrelation test (AR2) are consistently above the 5% significance threshold across all models. This confirms the non-rejection of the null hypothesis, suggesting that serial autocorrelation is not a concern in the estimations. This is a critical finding, as the absence of second-order autocorrelation supports the validity of the moment conditions required for the consistency of the GMM estimator. The p-values of Hansen J test, which evaluates the

exogeneity of the instruments, are reported. For all models, the null hypothesis of instrument exogeneity cannot be rejected at conventional significance levels. This implies that the instruments used in the models are valid and that endogeneity is not a significant issue, further reinforcing the robustness of the estimation results.

Another important aspect highlighted in Table 4 is the number of instruments used in each model. The results show that the number of instruments is consistently lower than the number of countries included in the sample. This is a crucial consideration, as an excessive number of instruments relative to the sample size can lead to overfitting and weaken the Hansen J test reliability (Roodman, 2009). The fact that the instrument count remains manageable provides additional evidence that the models are well-specified and that the coefficient estimates are reasonable. Jointly, these diagnostic results—ranging from the absence of autocorrelation and valid instruments to the appropriate number of instruments—support the validity of the proposed models. They collectively indicate that the GMM-Sys estimations are robust and reliable, drawing meaningful inferences from the data.

Table 4 also shows the development of the model, showing that the results remain the same and the adjustment tests confirm the model's suitability. Results show that the IPSAS adoption does not influence FDI inflows, which leads to the rejection of H1. This finding is consistent and valid in all the models evaluated and remains significant even when there is no time control, as shown in model (6). Thus, the results of the five GMM-Sys estimates show that the adoption of the IPSAS did not lead to a significant increase in the FDI inflows of the countries in the sample.

Furthermore, among all the models, FDI in t is positively influenced by FDI in $t-1$ at the 1% level, thus suggesting that foreign investments from the previous period can affect current foreign investments. Trade openness also showed a positive and significant relationship at 1% in the models evaluated, suggesting that the greater the trade openness, the

greater will also be the foreign investment received. Similarly, the GDP growth rate was significantly and positively related to FDI. The findings confirm that GDP growth is an important determinant of foreign investment for the countries in the sample.

4.3 Discussion

The IPSAS adoption phenomenon can be understood in the light of the resource dependency theory. By assuming that FDI can be a valuable resource for host countries to address their needs, such as technological improvement, job creation, productivity and industrial advancement (Peres et al., 2018), countries could adopt IPSAS as a strategy to obtain resources through foreign financing and investment. Thus, in line with Resource Dependency Theory assumptions, countries would expect greater integration and legitimacy on the international stage by adopting IPSAS (Christiaens et al., 2015; Sellami & Gafsi, 2019).

However, the results of this research do not support the claims made by previous studies, which suggested that the credibility provided by the adoption of IPSAS could attract more resources for economic development, including FDI (Egolum & Ndum, 2021; Saleh et al., 2021). GMM-Sys estimates showed that IPSAS adoption was not related to FDI inflows. Thus, it can be inferred that the adopting IPSAS had no significant effect on the FDI inflows of the countries analysed, which represent around 80% of the global FDI.

The adoption of IPSAS can convey confidence and signal the commitment of governments to transparency and accountability, based on internationally recognized accounting standards (Sellami & Gafsi, 2019; Tawiah, 2022). However, this result indicates that IPSAS adoption might not have been sufficiently recognised in foreign investors' assessments and, as a result, is not reflected in FDI inflows.

These results may be surprising given the claims made by previous studies and the theoretical perspective adopted here. On the other hand, this finding adds to the discussions

about the uncertainties regarding the concrete benefits that the adoption of the IPSAS can promote. The literature on the benefits, criticisms and consequences of the IPSAS is diverse and empirical studies are incipient, which can raise doubts among investors and funders. In addition, certain benefits promised by adopting IPSAS may require adaptation and experience (Tawiah & Soobaroyen, 2022; Tawiah, 2023a).

This (non) evidence is important when evaluating different economies, such as developed and emerging countries. FDI is sought by both, either as a competitive strategy or as a lever for economic growth (Saini & Singhania, 2018). However, implementing IPSAS demands consideration of different barriers. A complete establishment of IPSAS requires considerable time, operational and administrative costs (Fahlevi et al., 2022) and is related to different institutional and environmental attributes, such as legal systems and economic and political factors (Christiaens et al., 2015; Bakre et al., 2022). Therefore, especially for emerging economies, where investment sources are more limited, this result suggests that IPSAS alone cannot be enough to attract FDI, but it is suggested that its adoption be accompanied by other institutional advances.

This finding can also be explained by the presence of countries that, while not adopting IPSAS, have local public accounting models that are considered appropriate (Oulasvirta, 2014). In these cases, IPSAS may not necessarily be a differentiator. In this research, in line with the literature on the attractiveness of FDI (Adhikary, 2017), the control variables were decisive in the sample analysed, these variables can be considered as more decisive for attracting FDI.

Lagged FDI was identified as highly significant and positively related to current FDI. These results are consistent with previous studies (Kariuki, 2015; Peres et al., 2018; Saini & Singhania, 2018). This indicates that investors are inclined to invest in countries that have

already received past contributions (Kariuki, 2015), since foreign investment decisions sometimes involve significant long-term capital expenditure (Saini & Singhania, 2018).

Trade openness also showed to be significantly and positively related to current FDI. This reinforces the understanding that policies and practices that promote free trade - which results in greater trade openness - can result in greater FDI flows, as found by Kariuki (2015), Adhikary (2017) and Chamisa (2020). Trade openness can facilitate IPSAS adoption by promoting regulatory harmonization and institutional alignment with international standards, strengthening transparency and investor confidence, which may, in turn, enhance FDI inflows. According to Table 4, the results indicate that trade openness is a relevant determinant of FDI.

Similarly, the annual GDP growth rate was positive and significant with FDI, corroborating previous studies that support this relationship (Gani, 2007; Saini & Singhania, 2018). Economic growth can interact with IPSAS adoption by improving the institutional environment and financial reporting practices, reinforcing investors' perception of economic stability and governance quality. This result reinforces evidence from previous studies that markets with a more promising economic performance attract FDI.

The corruption perception in the host country did not show a significant influence on FDI inflows. This result can be considered surprising when compared to some previous studies (Aw & Tang, 2010; Chamisa, 2020; Hasan et al., 2017). However, this outcome is consistent with other previous studies, such as Iloie (2015), which analysed developing countries, and Peres et al. (2018), which examined countries in Central and Eastern Europe.

One possible explanation is that the sample includes countries with different institutional environments, economic structures, and investment drivers, which could dilute the overall relationship of corruption on FDI. Furthermore, the results indicate that investors in high-return economies may prioritise factors such as market potential and economic freedom over concerns about perceived corruption.

As additional analysis, the interaction between economic growth and IPSAS adoption was checked for the sample. In practice, a multiplicative factor labelled as *Growth_IPSASit* was added in Model 7 (Table 4). The subjacent rationale of this interaction was to investigate whether the combination of IPSAS adoption and economic progress could jointly drive FDI. However, as presented in Table 4, the coefficient associated with *Growth_IPSASit* is not statistically significant. This suggests that IPSAS adoption does not enhance the attractiveness of foreign investment when conditioned on economic growth. This could be explained by possibility of broader institutional factors play a more decisive role in shaping investor confidence. Furthermore, it may indicate that the benefits of IPSAS adoption take longer periods to materialize or that investors are currently prioritising structural and regulatory aspects over accounting reforms when making investment decisions.

5 CONCLUSIONS

Reforms in public management, such as the adoption of IPSAS, are intended to promote economic improvements (Bakre et al., 2022). FDI is a resource that favours a country's economic growth and therefore plays a moderating role in the sustainable growth of an economy (Islam et al., 2020). Based on the demand for studies that show the effective results obtained in the economy of countries through the adoption of IPSAS (Schmidhuber et al., 2020), this research analysed the relationship between the adoption of IPSAS by countries and FDI inflows.

The results showed no significant effect of adopting IPSAS on the FDI received by the sample countries, which represent almost 80% of global FDI. From a resource dependence perspective, FDI is considered an important resource for the economy (Peres et al., 2018) — especially for those who depend on external resources to promote their development and, for this reason, are more likely to promoting reforms (Saini & Singhania, 2018) such as the

adoption of IPSAS (Amiri & Hamza, 2020; Christiaens et al., 2015). However, the findings do not agree with this belief by indicating that IPSAS adoption has not yet been enough to affect the credibility of countries with foreign investors and increase their international legitimacy (Benito et al., 2007) and thus result in greater attraction of foreign investments (Sellami & Gafsi, 2019).

These findings have some important academic implications. By suggesting that IPSAS adopting does not appear to have an effect FDI inflows in the analysed countries, this result contradicts assumptions made from previous articles (Egolum & Ndum, 2021; Saleh et al., 2021). This analysis contributes to a deeper understanding of the effective impact of these standards, a topic that is still under-explored in the literature (Schmidhuber et al., 2020), which is essential to assess whether they achieve their purpose of promoting economic improvements in the adopting countries (Bakre et al., 2022).

As for the practical implications, it is noteworthy that adopting IPSAS requires a major restructuring of the state, especially in emerging countries, and imposes challenges on governments in terms of financial resources, staff training and computerized systems (Saleh et al., 2021). On the other hand, developing countries are dependent on funding sources that exert pressure to adopt it, such as the IMF and World Bank (Oulasvirta, 2014). Besides this finding suggests that, while these organizations emphasize the benefits of standards, they can perform differently when considering the particularities of each economy (Bakre et al., 2022), other institutional factors, such as efforts towards greater trade openness, could be prioritised.

This evidence can also promote new debates among government leaders and policymakers. It is suggested that other institutional factors, such as transparency policies and administrative reforms, should be analysed as a preliminary step or in conjunction with IPSAS adoption. For example, measures such as the degree of citizens' political participation and media freedom can more effectively represent government transparency and

accountability than the degree of IPSAS implementation (Castañeda-Rodriguez, 2022). Therefore, the adoption of IPSAS within a government reform strategy aimed at obtaining FDI needs to be approached with caution: IPSAS adoption alone may not lead to the idealised objective.

On the other hand, the results obtained in previous studies, which indicate an association between the adoption of IPSAS and improvements in the institutional environment (Cuadrado-Ballestreros & Bisogno, 2021; Hamed-Sidhom et al., 2022; Hesarzadeh & Behbahaninia, 2022; Tawiah, 2023a), should not be overlooked. Therefore, this result should not be assessed in isolation, given that positive effects of adopting IPSAS can be observed according to each context, even though it is recognised that this study does not allow inferences regarding the effect that countries could have if they did not adhere to these standards.

Regarding limitations, it is recognised that this study does not exhaust the various possible determinants of FDI present in the literature. However, this research was based on the most recurrent determinants in academic research, and the diagnostic tests indicate the reliability and validity of the models here proposed. Furthermore, the results are based on a sample of 32 countries, which is consistent with Gani (2007) and Saini and Singhanian (2018). Although these countries account for almost 80% of global FDI, it is important to consider the specificities of each country for FDI attraction policies (Adhikary, 2017; Delgado et al., 2014).

Future research could add to this discussion by exploring the relationship of IPSAS with other macroeconomic indicators or social and financial indicators. The influence of length of experience on the adoption of IPSAS can also be analysed, since its effect, as well as the maturity of those involved with the standards, can take some time to become apparent (Tawiah, 2023a). Future studies may cover other countries and explore specific contexts not

described in this analysis, for example, countries in economic transition or specific geographic regions.

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A (Não) relação das IPSAS com o Investimento Estrangeiro Direto

RESUMO

Objetivo: Esta pesquisa investigou a relação entre a adoção das Normas Internacionais de Contabilidade do Setor Público (IPSAS) e os fluxos de Investimento Estrangeiro Direto (IED).

Método: Foi analisado um painel de dados, composto por 352 observações de 32 países que concentram cerca de 80% do IED global, utilizando o método do Método Generalizado dos Momentos (GMM-Sys).


Originalidade/Relevância: Com base em evidências empíricas, os resultados sublinham que a adoção das IPSAS não parece ser uma estratégia significativa para aumentar a credibilidade junto dos investidores internacionais e atrair IED. Esta conclusão faz avançar o debate acadêmico sobre os benefícios, críticas e consequências da adoção das IPSAS.

Resultados: Os resultados das cinco estimativas GMM-Sys mostraram que a adoção das IPSAS não levou a um aumento significativo nos influxos de IED dos países da amostra.

Contribuições Teóricas/Metodológicas: Do ponto de vista acadêmico, esta pesquisa acrescenta evidências sobre os efeitos das IPSAS nas economias e também levanta discussões sobre a suposição em estudos anteriores que presumem benefícios da adoção das IPSAS na forma de aumento do investimento estrangeiro.

Contribuições Sociais/para a Gestão: Para os gerentes públicos e formuladores de políticas públicas, essa conclusão sugere que a adoção das IPSAS dentro de uma estratégia de reforma governamental destinada a obter recursos externos deve ser considerada com cautela, de modo que outros fatores institucionais parecem, neste momento, ser mais eficazes.

Palavras-Chave: Normas Internacionais de Contabilidade do Setor Público (IPSAS), Investimento Estrangeiro Direto (IED), Teoria da Dependência de Recursos, Método Generalizado dos Momentos.

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