

# Regionalwert AG Indicators as a Tool to Change the Accountancy System and Reveal the True Benefit of Human-scale Farms



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## Introduction

Agricultural businesses these days are being measured by industrial standards. This has severe consequences especially for what we can call human-scale agriculture businesses - we use the concept of Schumacher (1973) for this. Their ecologic, economic and social services are not adequately valued; they are actually treated as a cost factor in an accountancy system that sets the wrong parameters. The Regionalwert AG (RWAG), a citizen shareholder company that builds sustainable local food systems across Germany with citizen finance, has started to address this issue by creating indicators to measure the real values for society that are provided by small and medium-scale agricultural businesses and other actors that are in the food system along the chain of added-value. This can serve as a basis for a different accountancy and the appreciation of how valuable human-scale farms really can be.

## The challenge

Soil needs time to regenerate in order to be productive - in financial accounting this is not adequately considered. Yet it is exactly this accountancy that determines what is viable and valuable. With this logic it is beneficial to add chemical fertiliser to soil and grow corn, thereby degenerating soil fertility, creating dependencies on fossil fuels and external market inputs. Nature does not provide receipts for the farmers' means of production - e.g. soil. But we can measure the farmer's efforts (e.g. time) for caring for and improving soil fertility. The time that a farmer spends on biodiversity measures, soil fertility etc. is seen as a cost - time is money - because it does not appear positively as an asset in the accountancy. This affects human-scale farms all over Europe.

The term human-scale was used by Schumacher in his work "Small is beautiful" (1973) and refers to economic approaches that are relatively non-violent and are appropriate in their scale for the needs of people - not for their greed. Yet the dominant stream in economics has a flawed judgement: Whether a thing yields a monetary profit to those who undertake it or not. The question should rather be if it yields a profit to society as a whole.



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This fundamental problem has led the citizen shareholder company RWAG in Germany to address this issue.

Since its founding 10 years ago the RWAGs' objective has been to establish regional food systems based on resilience, sovereignty and sufficiency. The RWAG channels citizen capital into sustainable businesses along the chain of added-value - from farm to fork. In order to show that businesses operate in line with the philosophy of the RWAG - and therefore the citizens that invest - social, ecological and regional-economic performance indicators have been established.

Once a year, the currently 20 partner businesses of the Regionalwert AG Freiburg report to citizen shareholders at the RWAG's Annual General Meeting. This written report addresses 87 indicators in three categories (social, ecological, regional-economic) and serves as a sustainability evaluation of the enterprises. It also communicates to shareholders the social-ecological return of their investment ("what has been achieved with my money?").

## Overview of the sustainability indicators

There are 87 sustainability indicators which fall into three categories and span 12 dimensions. The indicators are both qualitative and quantitative:

| Social                | Ecology                              | Regional economy            |
|-----------------------|--------------------------------------|-----------------------------|
| Employee structure    | Soil fertility                       | Distribution of value-added |
| Remuneration          | Biodiversity                         | Value-added in the region   |
| Quality of workplaces | Application of the EU-Eco-regulation | Commitment in the region    |
|                       | Development of organic farmland      | Dialogue in the value chain |
|                       | Resource use                         |                             |

*Table 1: RWAG Sustainability Indicators 2014*

Conventional financial accounting systems do not adequately consider the services that provide public goods. This disadvantages small and medium scale farms.

The Regionalwert AG aims to change this prevailing paradigm through its sustainability indicators. The indicators have a potentially wider function than communicating information about social-ecological services to shareholders. They can serve as a basis for an integrative model of accountancy.

It is crucial to find ways of measuring the value of actions providing public goods without falling into the trap of placing values on nature itself. The example of the CO<sup>2</sup> emissions valuation and trade shows the absurdity of placing a value on things that have an inherent value.

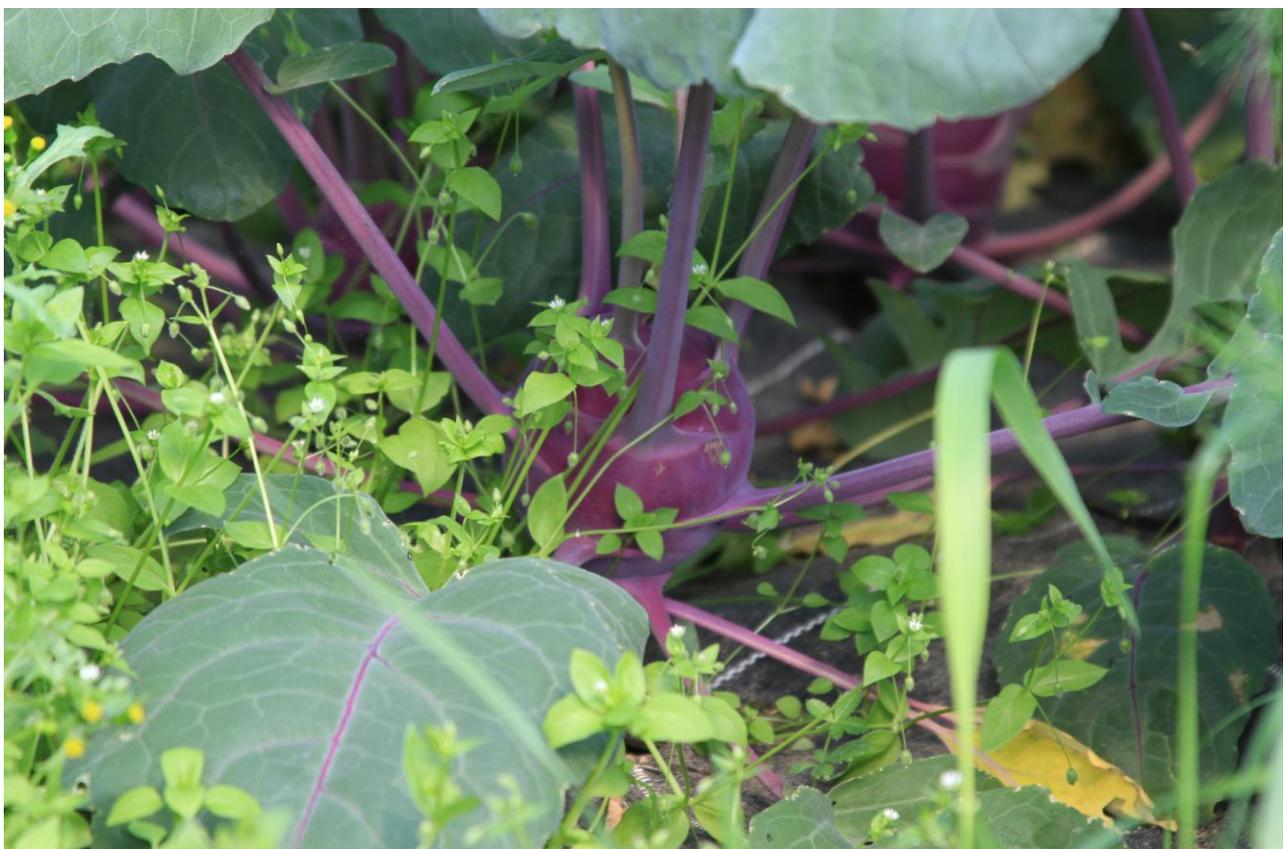
The RWAG did not stop with the indicators. Together with the research organisation “Agronauten” a project was started in 2015 to “calculate it right!” (Richtig rechnen!).

Now the RWAG’s sustainability indicators are used to provide information for the financial accounting of agricultural enterprises - at least in a model accountancy that aims to illustrate the real value of farms. An account in book-keeping usually refers to assets, liabilities, income, expenses, and equity, as represented by individual ledger pages, to which changes in value are chronologically recorded with debit and credit entries. The model accountancy of the RWAG extends book-keeping by adding new parameters related to the public good.

An example: Farmer J.S. uses a certain amount of hours in order to e.g. improve soil fertility with leguminous plants, provide nesting places for farmland birds, take care of wild bees and prune hedges.

It is important to note that we are also talking about social and regional economic dimensions: So that includes the work of J.S. with apprentices, the integration of the farm in the local economy and so on.

Now the time he spends on these services is noted and either affects already existing account sections or is introduced as new categories into the charts of financial accountancy.



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For clarification: the model accountancy includes the work that is otherwise not compensated for. If the external costs are internalised through higher prices (more space for chickens in the chicken shed = higher prices for eggs) then they do not appear in the accountancy. It is also a challenge to find the right way to gather and weight data (e.g. how much time spend on measure x seems reasonable).

This changes the overall balance of the economic measurement. The services that benefit both his enterprise *and* society in general (now and in the future) like e.g. functioning farmland eco-systems, good soil quality, skilled youth, motivated workers, local economic infrastructure, resilient and diverse food provision for the region (to name a few) get an economic value.

This gives the many farms that already operate like this the possibility to keep going because they have a comparative advantage to businesses that operate without social, ecologic and regional consideration. Furthermore it incentivises other businesses to work more sustainably.

Experience has shown that the indicators of the RWAG are not sufficient. These “soft” communication measures have a limited impact. Changing the parameters sends much stronger signals to the farmers and to the public.

## Conclusion

Of course the indicators and the model accountancy function as a “real lab” situation that aims to provide inspiration to others in order to show that we need to “calculate in the right way” to ensure the future of small and diverse farms as well as the resilient and sustainable development of communities. According to Schumacher we can also postulate that this would be a step towards acknowledging reality, because in his view we are “estranged from reality and inclined to treat as valueless everything that we have not made ourselves” (1973). In a wider sense it is thus a manifestation of a different, more holistic economic paradigm.

In the medium to long term fundamental reforms to accounting regulations and practices are needed to include social, ecological and regional-economic aspects (externalities). For this to happen, good examples in agriculture can play an important role.