

POSITION PAPER

TRUE COST ACCOUNTING IN FINANCE, FOOD & FARMING

A private sector-led initiative for green banks and small and medium-sized enterprises

Justification

Multiple crises - from the now chronic economic crisis, through the alarming increase of nutrition-related diseases and antibiotic resistance, to climate change challenging farming' viability in several areas – call for a radical change in measuring, and consequently, taking informed decisions on full costs and benefits. 'Profit' needs to be re-defined in order to overcome perverse incentives in the investment-, food- and farming sector. Sustainable development depends on our ability to correctly account for economic, environmental and social costs, risks and dependencies, and integrate them into a single decision-making tool.

Several initiatives have emerged in the last few years, with a view to support this emerging need, including: the Natural Capital Protocol (NCP), Social Capital Protocol (SCP) and The Environmental and Economics of Biodiversity for Food and Agriculture (TEEB AgFood), as well as several overviews and guidance documents of the World Business Consortium for Sustainable Development (WBCSD). While these initiatives offer harmonized frameworks for businesses, the choice of metrics is left open to users. In particular, Small and Medium Enterprises (SMEs) need guidance on Key Performance Indicators to use for assessing and monetizing societal impact of their operations.

Objective

Based on the NCP framework, it is proposed to develop a practical tool for True Cost Accounting in the Financial-, Food- and Farming sectors (TCA-FFF). In particular, the NCP "Measure and Value" stage will be developed with metrics specific to economic, environmental and social performance of SMEs engaged in finance, food and/or farming. The ultimate objective of the TCA-FFF tool is to overcome perverse incentives in small and medium food supply chains, in support of ethical enterprises and green financing.

Outcome

A business-shared TCA-FFF Dashboard to measure and monetize impacts on planet and people. The Dashboard will be based on the Sustainability Flower template developed by the International Association and Partnership for Ecology and Trade which already considers impact assessment of operations on people and planet. KPIs will be designed for the joint purpose of investors, banks, financial auditors, and small and medium-size enterprises in the food- and farming sector.

Methodology

Key Performance Indicators will be identified for monetizing economic, environmental and social performance, based on international and business-agreed frameworks and methodologies, such as FAO' Sustainability Assessment for Food and Agriculture systems (SAFA) Guidelines, Natural Capital Coalition, TEEB AgFood and WBCSD. These frameworks will also guide methodological steps, such as the definition of boundaries according to spheres of influence, participatory definition of sector-relevant materialities, relevance and pragmatism following the 20/80 rule, etc. While environmental KPIs are relatively developed, monetary valuations and approaches largely differ. Social KPIs are in an early stage of development and monetization, such as Quality Adjusted Life Years for health, provides challenges that require a different approach, such as the Subjective Wellbeing Valuation. The interpretation and integration of existing frameworks is required for SMEs, as well as agreement among them on a common dashboard for monetizing impacts and dependencies.

Following the identification and development of KPIs (especially the social wellbeing KPIs), and selection of key measurement methods, the FCA-FFF Dashboard will be applied by: (i) determining measures for monitoring sustainability performance; (ii) implementing data gathering for KPIs; and (iii) reporting on true costs, according to clients' reporting aims. Eventual partners¹ and the outcome application are the following:

- Finance: monitoring and reporting on the true cost of financing of Triodos Bank (Netherlands) and GLS Gemeinschaftsbank (Germany) by applying the Dashboard for Profit/Loss balance sheets, investment- and loan assessments.
- Food: monitoring and reporting on the true cost of food of Nature & More, Lebensbaum, Rittersport, Alnatura and/or Whole Foods USA by applying the Dashboard for the communication of the true cost of food in the market place.
- Farming: monitoring and reporting on the true cost of small and medium-size (organic) farms supplying the above-mentioned food partners, with a view to generate consolidated supply-chain assessments. IFOAM will oversee the application of the Dashboard to assess the true cost of farming to policy-makers and/or sustainable procurement agents.

The coordination of the technical implementation will be carried out by EY/TruCost/KPMG and Soil & More International. Soil & More already carried out a series of true cost assessments on different fruit and vegetable as well as coffee, tea and dairy supply-chains from different regions worldwide. These true cost assessments have been based on Soil & More's experience and primary data taken from various product footprints and LCA's and on the monetization factors and approach suggested by the FAO back in 2014.

Results

The Pilots will generate a wealth of information on strengths and limitations that will allow the finalization of the FCA-FFF Dashboard. These results will be presented and rolled-out at a High-Level Summit on True-Cost Accounting in Finance, Food & Farming, mid-2018. Lessons from this process, as well as the conference' discussions, will lay the basis for mainstreaming and scaling-up the Dashboards' application.

Timeframe (2 years)

- Mapping, selection and development of KPIs: July-September, 2016
- First Pilot TCA Balance Sheet & P/L Eosta, Triodos, Gemeinschaftsbank, SMI: Sep – Dec 2016
- Pilots in finance, food and farming contexts: January-December 2017
- Finalization of FCA-FFF Dashboard and presentation of results: January-June 2018

This project will capitalize on scheduled events with a view to create a critical mass of interested partners and anchor the initiative within existing frameworks. So far, the following events are noted:

- September 2016: TEEB AgFood meeting;
- 2017: WBCSD meeting
- TCA FFF for SME's: launch mid 2018

Budget 2016 - 2017

KPIs mapping and selection by SMI	20.000
3 pilot applications (Eosta, Lebensbaum, Alnatura) by SMI	60.000
Advisory services EY	30.000
Draft FCA-FFF Dashboard by SMI	15.000
Total	125.000

HIVOS committed to contributing 10.000. Remaining costs to be shared by Soil & More, Eosta, Lebensbaum, Alnatura, GLS Gemeinschaftsbank, Triodos Bank: 19.000 per organisation.

In 2017 the draft tool will be completed, following pilots in a variety of contexts
Estimated costs (to be covered by additional funds):

Development of Social Well-being KPIs	50.000
2 more pilots	40.000
IT development of FCA-FFF Dashboard	20.000

Project Management

- A. Volkert Engelsman, Peter Stijkel - Eosta
- B. Tobias Bandel - Soil & More International
- C. Peter Blom, James Niven, Alexander Wingelaar, Thomas Steiner - Triodos Bank
- D. Nadia Scialabba - FAO
- E. Roel Drost, Jan Fredriks - EY

Sounding Board (tbc)

Auditing companies

1. Roel Drost, EY
2. Jan Fredriks, EY
3. Richard Mattison, CEO Trucost

Groups involved in FCA frameworks

4. Mark Gough, CEO, Natural Capital Coalition
5. Rodney Irwin / Peter Bakker, World Business Council for Sustainable Development
6. Alexander Mueller, Study Leader, TEEBAgFood
7. Gerard Mulder, IUCN

Representatives of finance sector

8. Peter Blom, Chairman Triodos Bank
9. Thomas Jorberg, CEO GLS Gemeinschaftsbank

Representatives of food sector

10. Thilo Bode, President Foodwatch
11. Ulrich Walter, CEO Lebensbaum
12. Götz Rehn, CEO Alnatura
13. Patrick Holden, President Sustainable Food Trust

Representatives of farming sector

14. Markus Arbenz, Director, IFOAM
15. Rob Cameron, Fair Trade International

Academics

16. Pavan Sukhdev, TEEBAgFood
17. Harpinder Sandhu, Flinders University, Adelaide, Australia
18. Daniel Fujiwara, London School of Economics, UK
19. Urs Niggli, Director, FiBL Switzerland
20. Prof Dr Alan Muller, University of Groningen

Policy & Governance

21. Renate Künast, MP Germany
22. Felix Prinz zu Löwenstein, President BÖLW
23. Willem Ferwerda, President Commonland
24. Dr Martin Lok, Ministry of Economic Affairs, Netherlands
25. Willem Henk Streekstra, VNO-NCW Dutch National Employers organisation
26. Rob van Brouwershaven, Ministry of Economic Affairs, Netherlands