

“True Cost Accounting – A Magic Formula”

To mobilise Finance & Business for best practices in
Food & Agriculture



October 12th 2018

True Cost Accounting (TCA) & Organic 3.0

TCA can facilitate reaching the new vision for the future of organic farming



Pillar 6: True Value and Cost Accounting

“...more specific guidance and tools are needed to help improve practices towards ecological and societal health.” (IFOAM, 2018)

TCA tools in development

TCA-Macro

Calculates diffuse impact on society and environment



Example

1kg Organic Pineapple =
€0.13 in Greenhouse Gas
Emissions*

TCA-Micro

Calculates impact of degradation of natural capital for farm, agrifood business or supply chain



Example

Soil degradation =
on-farm input costs increase
€30/ton product/year*

Different forms of TCA

In our view TCA contains approaches that have different application potential

		TCA-Macro	TCA-Micro
Timescale		Long-term	Short-medium term
Core motivation		Altruistic/moral responsibility	Business logic
Food & agri stakeholders	Public sector Government, NGO etc.	<ul style="list-style-type: none"> Discouraging harmful practice (e.g. implementing polluter pays principles) Encouraging best practice 	<ul style="list-style-type: none"> Monitoring policy impact Economically-efficient solutions
	Private sector Farmers, agrifood business, investors	<ul style="list-style-type: none"> Transparency & communicating credibility to consumers Raising awareness of impact 	<ul style="list-style-type: none"> Sourcing and production risk & volatility True cash flow effects Effective monitoring

TCA-Micro in Food & Agriculture

TCA-Micro ties natural capital to ongoing Food & Agri business viability

- Food & agribusinesses are **directly and strongly dependent on natural capital** (particularly soil), but this is often hidden or externalised *in the short-term*
- TCA-micro = evidence that transformation towards more sustainable production systems is not only morally appropriate but also **economically logical**
- Soil & More Impacts 'TCA-Micro' model = our **"Magic Formula"** → we found out that CFOs are only really interested if it's about their firms' key issues as future raw material security

Magic Formula is relevant for:



Individual farms & associations of farmers

E.g. managing yields



Food and agriculture businesses & supply chains

E.g. managing scarce resources



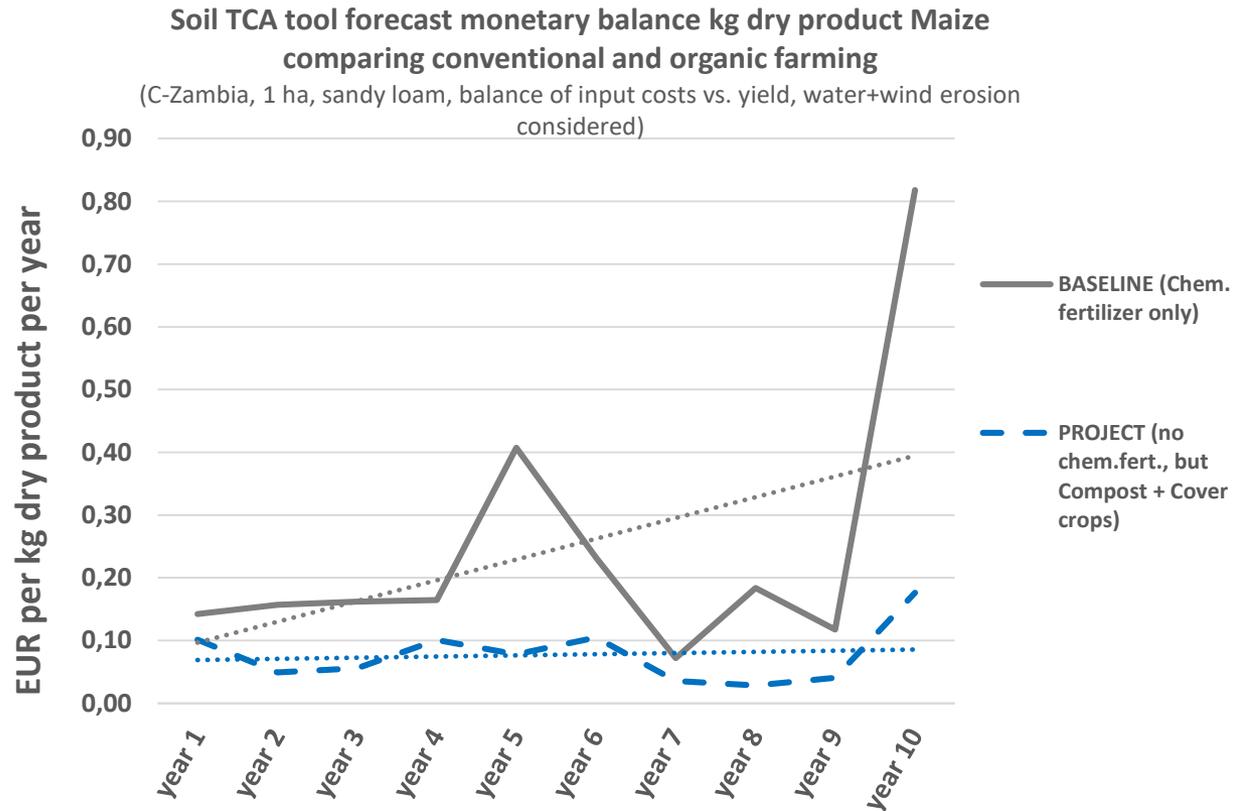
Financial organisations in Food & Agri (e.g. insurance companies, investors)

E.g. superior insights in business continuity

Magic Formula in practice

We can help farmers understand direct benefits of making changes to practice

- Cost-output modelling over 10 years from present
- Comparing the baseline with alternative scenario(s)
- Projections give an **indication of trend**, not fully accurate modelling of outcomes
- Clearly shows **increasing input-output ratio** for conventional farming and advantages of more sustainable practices
- Formula does not include yet: **labour costs, application of 'polluter pays' policies**



Emerging trends in Finance

Reducing natural capital degradation is a key business concern for Food & Agri

“Society is demanding that companies, both public and private, serve a social purpose. To prosper over time, every company must not only deliver financial performance, but also show how it makes a positive contribution to society.” (Fink, CEO Black Rock 2018)

“[Food & Ag industry] currently tolerates massive negative environmental and social impacts in its supply chains. This business model is not sustainable.... If these companies fail to transform their business practices in the near future, they could end up facing shortages in central input resources and losing key sales markets for their products.” (Oekom, 2017)

“Companies in [the food beverage sector] should pay more attention to the management natural capital risk in the supply chain” (Allianz, 2018)

“Every CFO should know this: ‘the future of banking ties verified ESG (Environmental, Social, Governance) performance to cheaper capital.’” (Gilbert, co-founder B-Lab 2018)

Allianz (2018). Measuring and managing environmental exposure, *Allianz Global Corporate and Specialty* (online). Available from: https://www.agcs.allianz.com/assets/PDFs/Reports/AGCS_NaturalCapitalRiskReport.pdf. Accessed 05 October, 2018.

Gilbert J.C. (2018). Every CFO should know this: ‘The Future of Banking’ ties ESG performance to cheaper capital’, *Forbes* (online). Available from: <https://www.forbes.com/sites/jaycoengilbert/2018/02/20/every-cfo-should-know-this-the-future-of-banking-ties-verified-esg-performance-to-cheaper-capital/#3bc9662e7e4d>. Accessed 10 October 2018.

Magic Formula applied to finance

Magic Formula facilitates effective decision-making for financing best practice in F&A companies

Magic Formula calculations are useful for:

Future risk & volatility



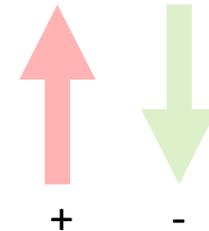
- Insurance risk level
- Projected financial stability

Future cash flow



- Return on investment projection
- Analysis of return on investment

Effective monitoring



- Progress on key indicators
- Cross-business/operation comparison & benchmarking

Final remarks

Our take-away messages for you

- TCA-Micro (*Magic Formula*) highlights **practical impacts** on business practices and **cash flow**, triggering decision-makers to look beyond financial capital
- Magic formula can facilitate **real on-the-ground decision-making** for Food & Agri business and the associated financial sector
- Magic formula can **mobilise the financial sector** to drive large scale transformation towards best practices and a thriving food & agricultural system
- **Soil & More Impacts** is currently **piloting apps** to make magic formula practical and implementable a larger scale