



MULTI DIMENSION IMPACT ACCOUNTING (MDIA)

FOR DISCUSSION

COMMUNITY ACCOUNTANCY

COMMUNITY FOCUS

Peter Burgess (2008)

Background Note

The following was prepared in 2008. This paper was written while a book length analysis of development assistance was being prepared, and the focus is largely on the systemic failure of this segment of the global socio-economic system.

Subsequently it has become clear that there are also major systemic issues in other segments of the global society and economy.



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Community Accountancy

**PUTTING ACCOUNTANCY TO
WORK FOR ALL OF SOCIETY**

COMMUNITY FOCUS

FOR DISCUSSION ONLY

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The Tr-Ac-Net Organization

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COMMUNITY FOCUS

WHAT IS COMMUNITY ACCOUNTANCY?

A fusion of several disciplines

Community Accountancy is a fusion of some of the key principles of engineering, management, human behavior and accountancy. The key characteristics of engineering that are incorporated into Community Accountancy come mainly from engineering thermodynamics, control theory, hydraulics and aerodynamics. Ideas from the area of management relate to how get knowledge converted into value. Ideas from human behavior are included because, if not, the chance of anything being of value is very much diminished.

Principles from the established field of corporate accountancy are used because they are surprisingly close to what is needed ... and simply need some modest modification to make them work for society as a whole rather than merely for the corporate subset of society.

Why community accounting?

Community Accountancy is a response to the very poor performance of society as a whole with multi-billions of people still in poverty, diseased and hungry. While there are metrics for corporate performance, there are no equivalent metrics that address the performance of society as a whole. There are no socio-economic metrics that provide the management information needed to improve performance, end the abusive mis-allocation of scarce resources, and hold people and organizations accountable.

Socio-economic development is complex ... but so are many other things. Managing a global business is complex as well ... but the corporation has corporate accountancy as part of a well developed integrated management information system ... and society has hardly anything at all.

Community Accountancy is a tool. It is a methodology and system for data organization, analysis and reporting that does for community and socio-economic development what accountancy does for the business and corporate world.

In most areas of endeavor there is an impressive commitment to getting data so that there can be more understanding and progress. However, in socio-economic development the focus that there has been on the metrics needed to understand socio-economic development and measure performance has excluded the dimension of old fashioned traditional accountancy. While there are some data ... they are limited, they are disorganized and very little of the data are easily accessible to the public. Most data has a focus on a specific narrow issue, and little are available that address multi-sector issues.

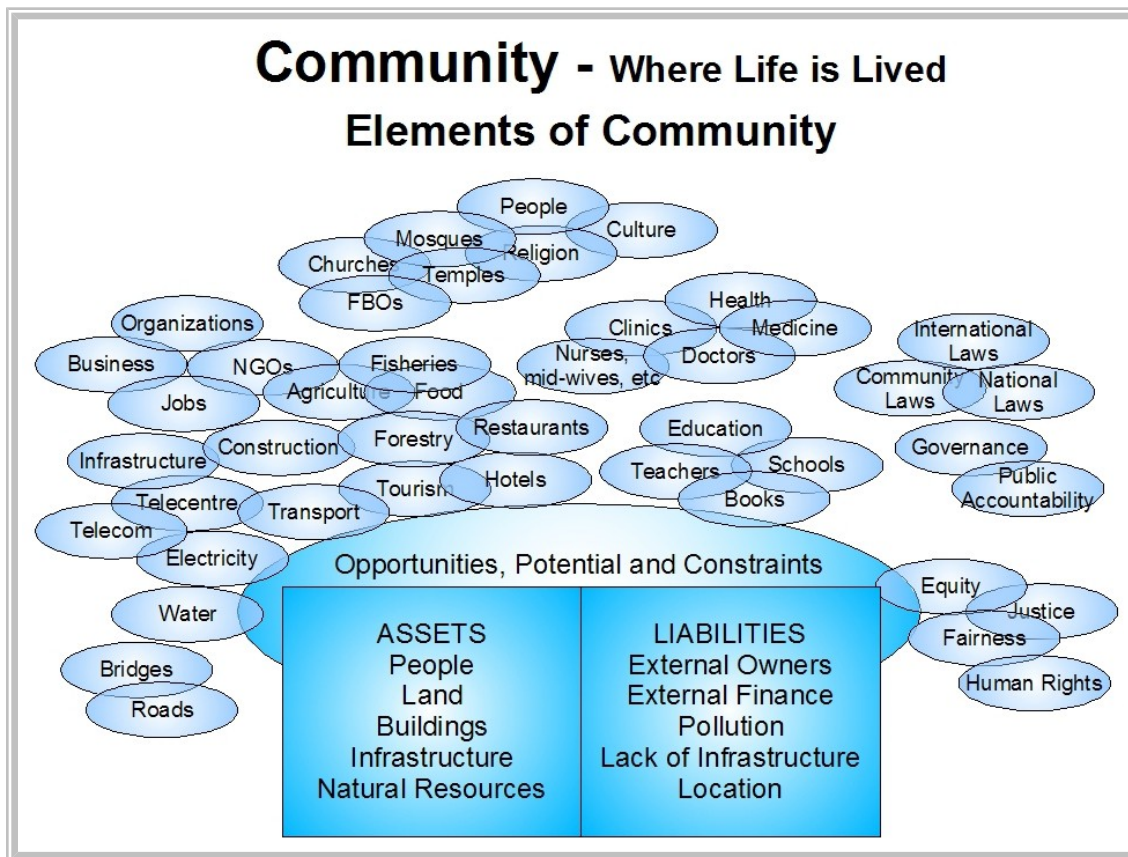
What we do know is that there has been catastrophic failed development and that there is no accounting or accountability for this in our modern global society. Interestingly, as the public understanding grows that there has been such failure, it becomes more and more difficult to access useful data. It seems that the data are being hidden to protect those who have had a part in producing the catastrophe.

Corporate accounting using generally accepted accounting principles (GAAP) has a focus on the organization. That is not enough. Community Accountancy provides a broader framework that extends beyond the organization. Something is needed that addresses impact on society. Corporate accountancy, profit reports and related company valuations by capital markets may suggest that there has been great economic progress ... but the reality may be very different. Community Accountancy is a tool to start setting the record straight and putting community value into the accounting.

Community is the starting point

It has been said that all politics is local ... but even more so, all life is local. More than anything else, this is the central concept of Community Accountancy.

People in their own community know what is going on ... and have an ability to hold people accountable most of the time. People in a community often know about things ... even if they cannot do anything about them. People need a structure that will make it possible for what they know to be used for the good of society ... to make their knowledge valuable ... and people need to be able to see metrics about society that have local meaning.



How does community accountancy work?

Community Accountancy works very much like corporate accounting, or government accounting, NGO accounting or small business accounting.

In Community Accountancy, the community is the basic reporting unit ... not the corporate entity. The primary stakeholder is the public rather than the corporate stockholders. Data are accumulated as in any accounting system, and the data may be accessed for periodic analysis and reporting while Community Accountancy builds on the generally accepted accounting principles (GAAP) ... and embraces the methodology of accountancy and not economic statistics and facilitates a whole range of metrics about society that are important to the public. It is more like cost accounting than clinical research.

The concepts of double entry apply ... the rules for consolidating entities ... the idea of balance sheet and operating activities ... etc.

TVM ... Community Accountancy ... Community Focus

Data originates where economic activities are going on ... and are accumulated systematically using sound accountancy principles. The big difference between corporate accountancy and community accountancy is that Community Accountancy is accounting that embraces ALL economic transactions rather than just those that relate to the organization.

Economic activity has two purposes: (1) to maintain the status quo; and, (2) to improve the situation. Rarely does economic activity have any other purpose.

Part of the genius of accountancy is that the framework of metrics makes it possible to understand progress of change without having to have much understanding of the process of change. What this means is that we can learn what works and what does not work without actually understanding why it worked or did not.

In turn this makes it possible to compile a rather modest amount of data, and from this learn a lot about progress or lack of progress. In contrast, compiling data about an activity can easily result in having a huge amount of data and absolutely no understanding of progress.

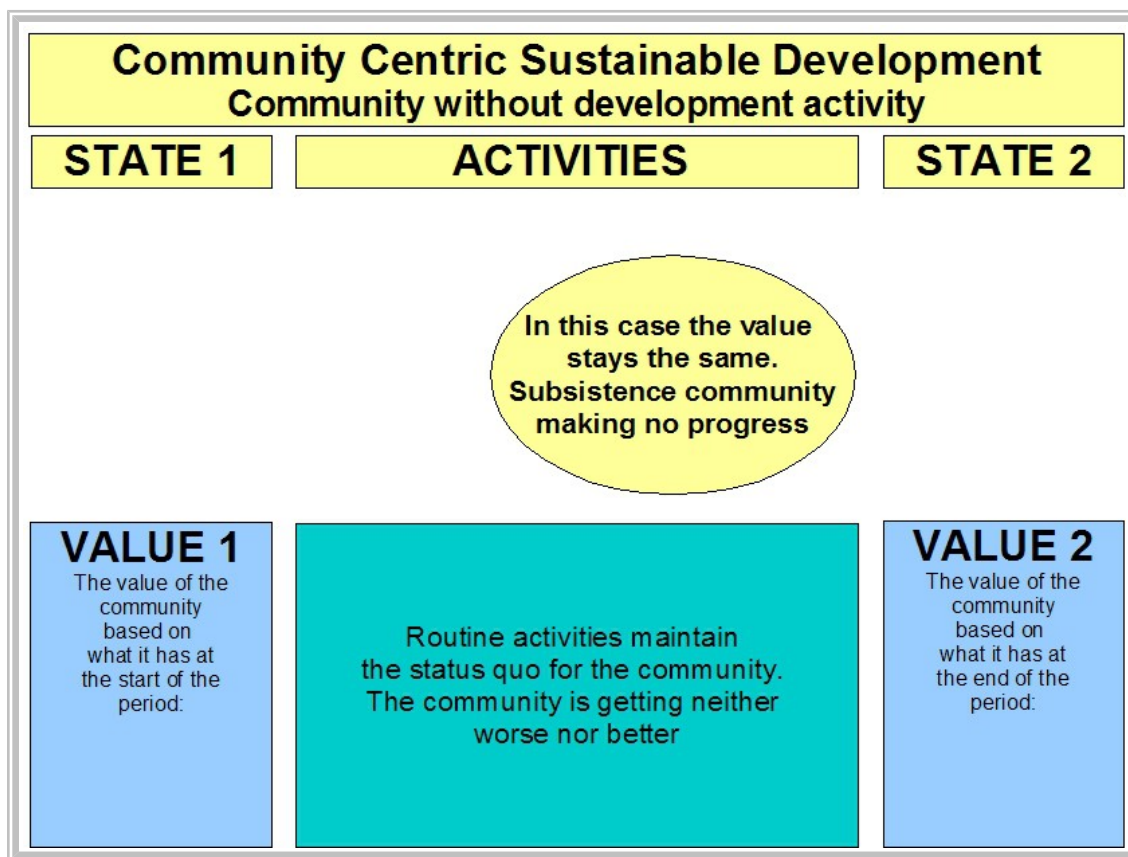
COMMUNITY ACCOUNTS

The base case

Community accounts are compiled to have all the elements that are to be found in business accounting ... the balance sheet to show the assets and liabilities of the community, and the activities account to show how money is used and what value is created.

The following graphic depicts the community “balance sheet” at the beginning (State 1) and at the end of a period (State 2) ... and shows the activities of the community that go on and move the community from State 1 to State 2.

In this case ... a stable community ... the value stays the same. The community lives, but does not progress. The balance sheet value of the community is the same at the beginning and the end of the period. In a stable community ... the normal activities of the community merely maintain the status quo ... this is what happens in much of the world much of the time. In a stable community the community consumes its resources and its value at the same rate that it creates new value ... things are sustainable, and the status quo is maintained.



The community may be analyzed using all the techniques that are used for the analysis of corporate accountancy ... and in addition Community Accountancy brings all the data about social value creation and destruction.

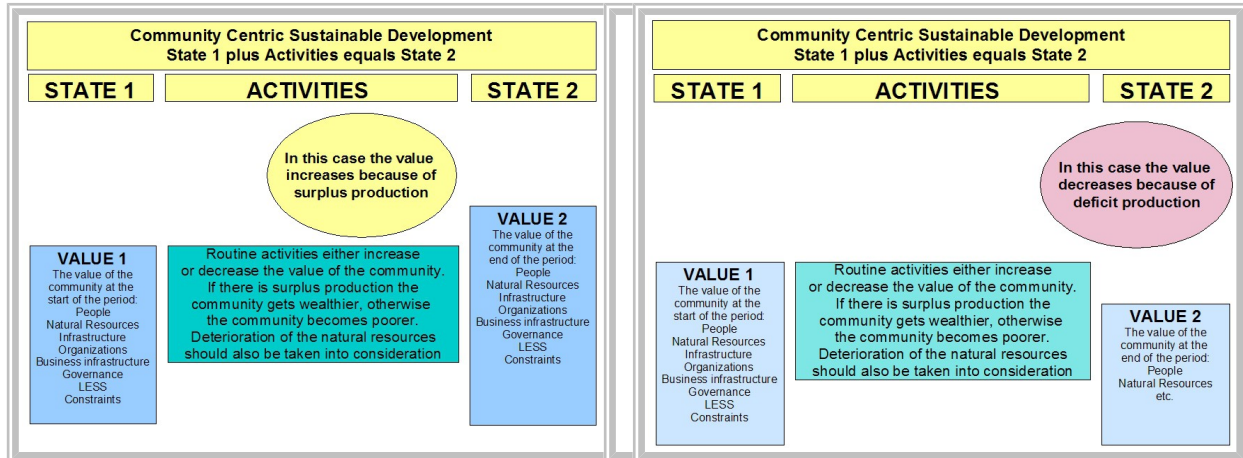
Community centric development will improve development performance in very practical ways and impact the quality of life of individuals and families.

Value creation and value destruction

Community ... progressing or going backwards

In this case the value at the end of the period is more than at the beginning of the period. There is surplus production ... this is progress.

And in this case the activities for the period used more resources than they created value and the community value declined. There is a production deficit ... the community is going backwards. When this continues over a number of years, the people of the community are in trouble.



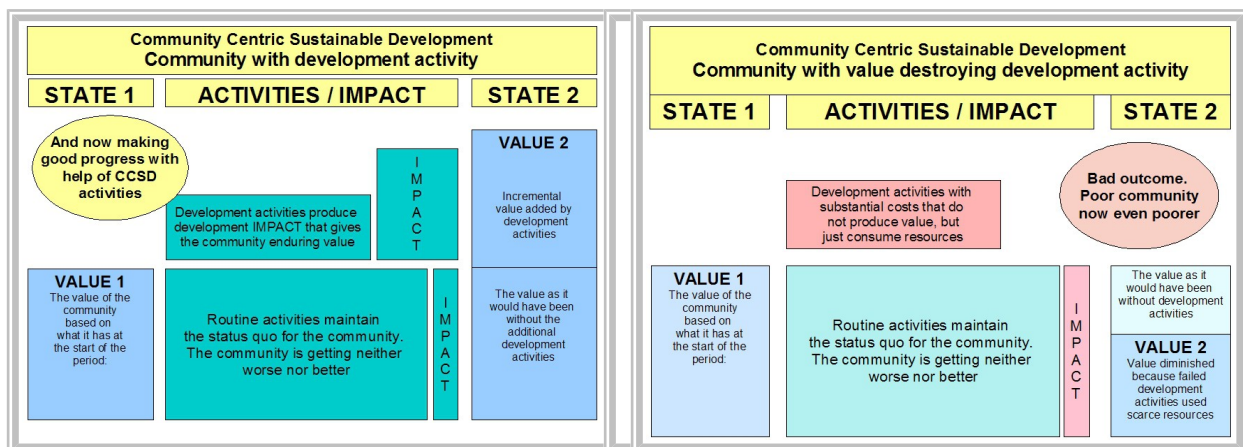
External intervention creating and destroying value

With development assistance ...

With development assistance there can be progress. But perhaps even better is the fact that a small amount of resources used to remove constraints and improve systemic problems can have huge leverage and get results that have a value many times what they have cost in terms of resources consumed.

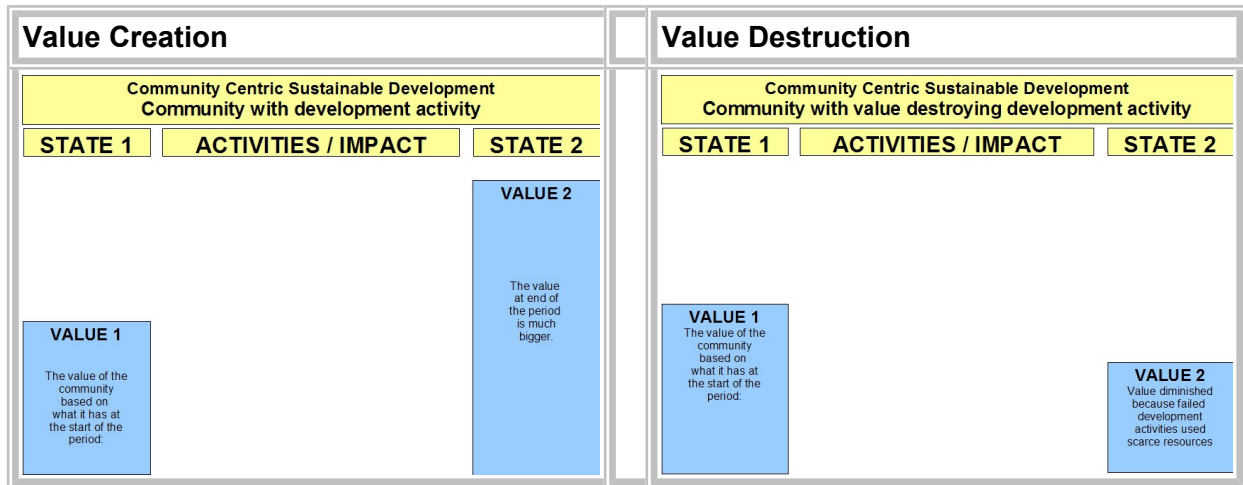
Value destroying activities are common ... with many origins. Local rivalries and socio-economic control by factions ... or economic control by predatory traders and middlemen ... are problems.

International and external assistance that does more harm than good is more common than well wishers would expect ... in fact it is a large part of the problem and off the table for dialog.



Using balance sheet to understand progress

The following images are modifications of what has been displayed before. In this case there is nothing about activity ... just something about the situation before and the situation later.

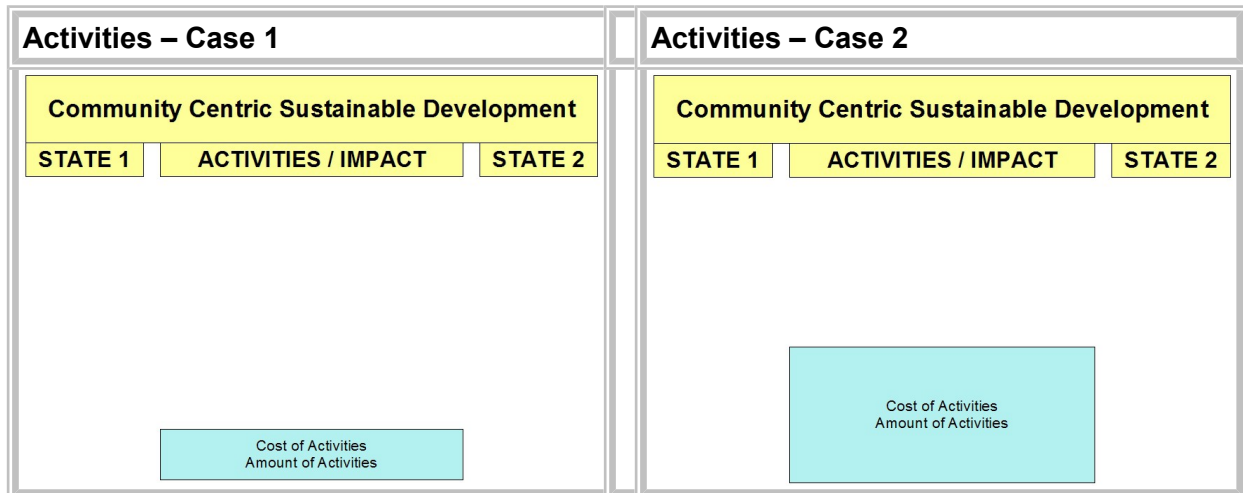


The balance sheet of the community at STATE 1 is much less valuable than the balance sheet later at STATE 2. There is progress ... that is clear ... and it can be measured. We just do not know what it is that has helped to get the progress.

In this case it is clear that the community is deteriorating. We do not know why, but it is obviously important to find out.

Using activity information

The following graphic shows something of the problem of using activity to determine performance. Data about activity helps to understand the cost of the activity and the amount of the activity, but not much about what value this had to the society.



In the Case 1 the cost and quantity of the activity is much smaller than in Case 2 ... but we have no idea whether or not the cost is right or the amount of activity is right. The information is almost totally useless, except that it gives the impression that something worthwhile is going on.

Data about activities dominates the media and the publicity of the relief and development industry ... it is of little more analytical value than the wonderful phrase used by American football commentators when

they say “They're in motion!”. Big deal! What is needed is information that tells whether or not the activity is helping to do so something that produces value and is being done as well as possible.

Table of Contents

WHAT IS COMMUNITY ACCOUNTANCY?.....	3
A fusion of several disciplines	3
Why community accounting?.....	3
Community is the starting point.....	4
.....	4
How does community accountancy work?.....	4
The base case.....	6
Value creation and value destruction.....	7
Community ... progressing or going backwards.....	7
.....	7
External intervention creating and destroying value	7
With development assistance	7
.....	7
Using balance sheet to understand progress.....	8
Value Creation.....	8
Value Destruction.....	8
.....	8
Using activity information	8
Activities – Case 1.....	8
Activities – Case 2.....	8
.....	8