



# **The Tr-Ac-Net Organization**

**Transparency and Accountability Network**

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# **Community Accountancy**

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

# **SUSTAINABILITY**

**FOR DISCUSSION ONLY**

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**July 2008**

# SUSTAINABILITY

## MANY VIEWS OF SUSTAINABILITY

### **Sustainability ... many perspectives**

Sustainability is a fashionable idea ... but with many meanings. The main set are:

- MONEY SUSTAINABILITY
- COMMUNITY VALUE SUSTAINABILITY
- ENVIRONMENTAL SUSTAINABILITY – LOCAL
- ENVIRONMENTAL SUSTAINABILITY – GLOBAL

One is that sustainability is to do with damage being done to the environment by the human race ... and the issues of the survival of our specie.

Another is more pedestrian relating to the ability of a person or an organization to have enough financial resources to pay its bills and survive economically.

One view of sustainability relates to the environment. Are economic activities doing excessive environmental damage or consuming too much of resources?

Another view relates to whether or not the activity will be financially sustainable. This often relates to whether or not a need can be met at a cost that allows for an affordable price that is modestly profitable.

### **Money sustainability**

In recent years, sustainability has become associated with environment more than economics, which is unfortunate. Financial sustainability is an absolute requirement for any organization to be able to survive and contribute to socio-economic well-being. When the money runs out, whatever it was funding stops. Simple. Financial sustainability is different from operational profit and positive cash flows ... an entity may get funding from other sources that makes it financially sustainable.

For many not-for-profit initiatives, their donors make the operation financially sustainable even though the operating revenues would be insufficient ... and of course, in turn the financial survival of the entity relies on the continuing support of their donors ... which in turn results in quite serious distortions about the work done and how it is presented.

### **Community value or socio-economic sustainability**

The welfare model of support for socio-economic development is rarely sustainable ... it takes value creation to ensure sustainability as well as a cost – price – value relationship that is affordable for the market.

Most profit maximizing business is sustainable but only operates in wealthy markets ... leaving the multi-billion BOP underserved. Social business that is low cost, low price, valuable and affordable is key to sustainable progress.

Modern enterprise in science, technology and in the corporate world has shown that there are amazing possibilities, but the potential benefits have not reached the BOP.

The Bottom of the Pyramid (BOP) can be better served, but systemic issues have to be addressed so that there is much more socio-economic sustainability for the BOP individuals and SMEs that are working hard but making little progress.

### **Environmental sustainability**

There is more hysteria about sustainability as it relates to the environment ... and the issue should not be ignored, but it must be put in perspective, and the use of resources carefully understood.

People are a root cause of environmental degradation, and poor people do damage as well as the economically rich ... but have no other choice. Economic wealth can be used to do things that will have environmental benefit.

Environmental sustainability should not be ignored, and is going to have a critical impact on the future of mankind. What can be done to have impact now?

Community Accountancy helps to get the issue of environmental sustainability on the agenda at the community level where people live. People and the way more than 6 billion people behave is the single most important cause of environmental degradation.

# SUSTAINABLE SOCIETY STRATEGY

Building a sustainable society is relatively easy when it is done using a multi-sector approach and building on available strengths. This is exactly the opposite of what has been the relief and development norm for the past several decades and not yet showing signs of changing.

The productivity of many production processes are many times improved over what was the norm in the past ... this ought to translate into improved quality of life for almost everyone. But it has not ... and the reasons are fairly clear. Rather than putting focus on productivity and social impact as the most critical of measures, there has been a preoccupation with price, profit and stockholder value.

Using price, profit and stockholder value as the metrics of progress, there has been one of the longest periods of boom in history ... but when community costs are factored in, the picture becomes less favorable. But worse ... the gap between what is possible based on science and technology and what we actually do has become incredibly wide.

Yet this should be the basis for sustainable progress. What needs to happen is planning that recognizes the role of economic profits and the role of community socio-economic value adding ... and uses them both to get the best possible results.

We are not doing this in large part because of the absence of cost accounting and financial analysis within the sector focused institutions ... WHO (health) ... FAO (agriculture) .... GFATM (funding health) ... World Bank (funding government). Bilateral funding could have filled a multi-sector role, but it has not, instead adopting a sector by sector approach that does not lend itself to optimizing a multi-sector dynamic.

## How to build a sustainable society

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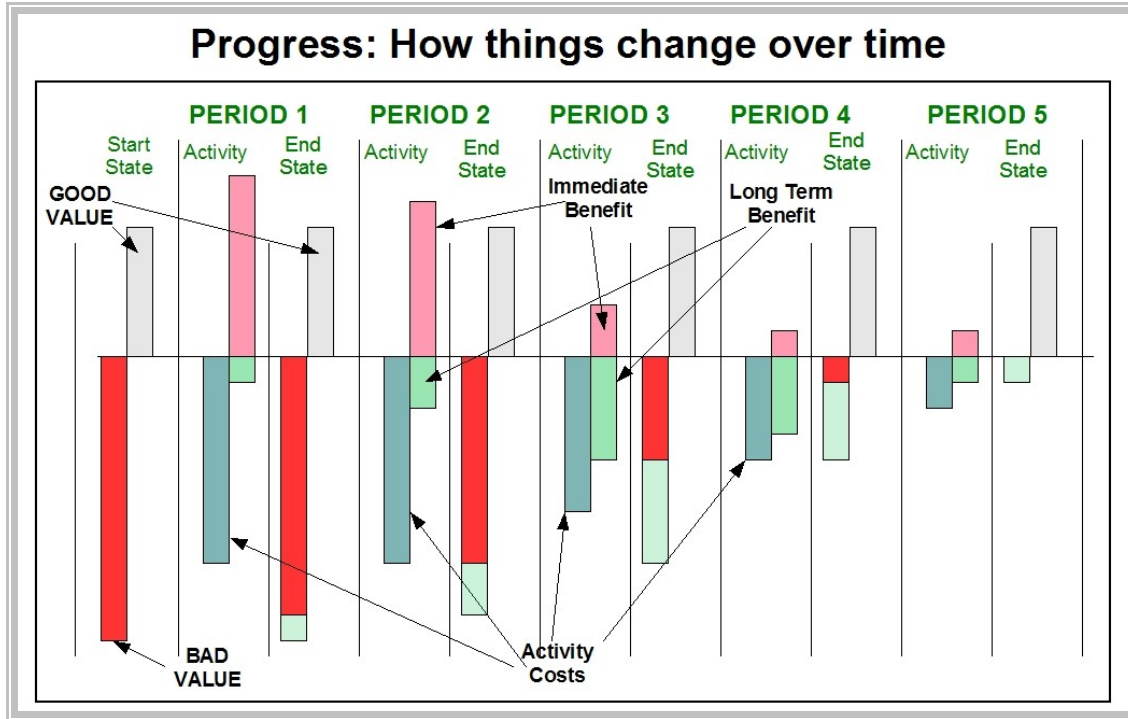
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# GETTING THINGS SIMPLE

## COMMUNITY DEVELOPMENT DYNAMICS

This graphic depicts progress over a number of periods ... and it depicts the activities that were used in each period to change the community status.

Though very much simplified it is not very clear and particularly easy to understand. More information would likely make it less clear rather than more clear.



The graphic shows the change in community over time using a balance sheet construct. The community progress is represented by “good things” that increase, and bad things that decrease. Development success is measured by progress in improving the the net of these. At the same time the graphic shows the way in which activity costs are allocated to immediate needs and future needs ... a useful concept for planning purposes, but perhaps confusing to people who are wanting simplicity.

### Average is not very useful

A huge amount of data may be simplified by talking about the average ... it is one easy number instead of many ... but it does not add much to understanding. There needs to be simplification that adds to understanding.

Accountancy helps to take a lot of data ... transaction data and put it into a form that has utility ... pull together equivalent data and see what these bits add up to. Compare similar bits with prior periods and start seeing trends. Compare similar bits with other places and learn from that.

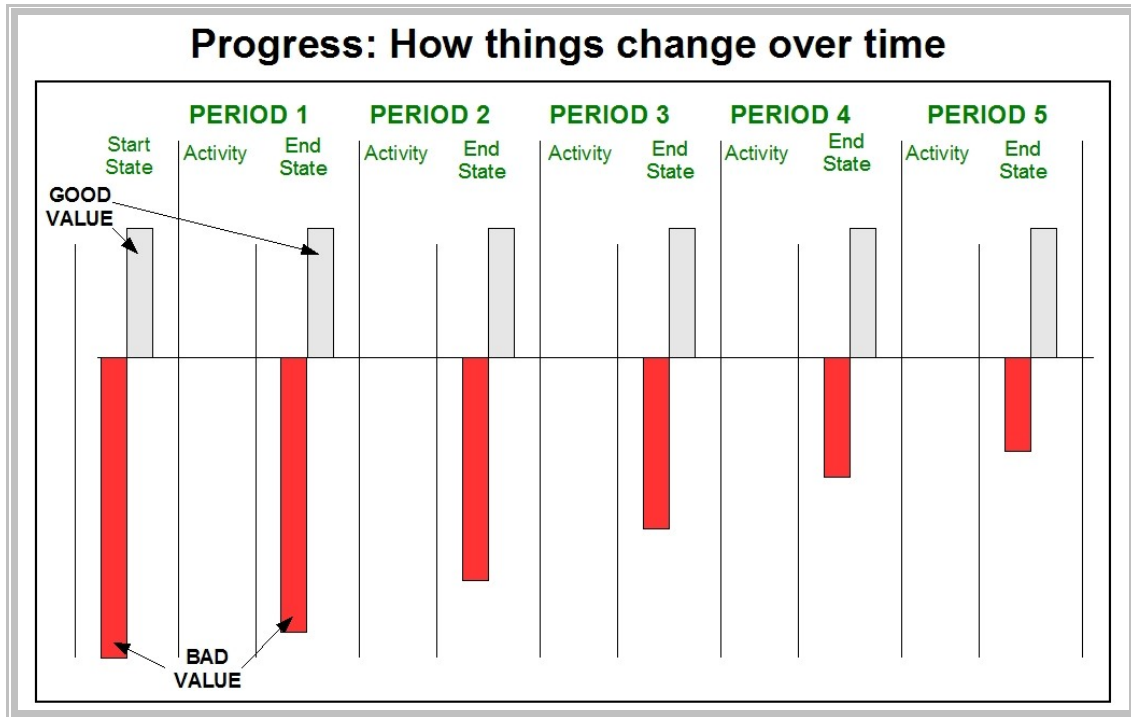
Look at plots ... variability might show something. Outliers may be bad data or may be alerting to something unusual.

What might be explained by what one expects ... might also be explained by some other factor. Keep a very open mind until the conclusions are supported by several sets of data and analysis.

## Measuring Progress

The following graphic is much simplified ...it graphic shows progress very clearly. The focus has been on getting a reduction in the bad value ... with the good value staying the same. This is typical of a lot of development interventions that focus on a single issue ... and the single issue gets improved ... which is good but not usually enough to establish a sustainable future.

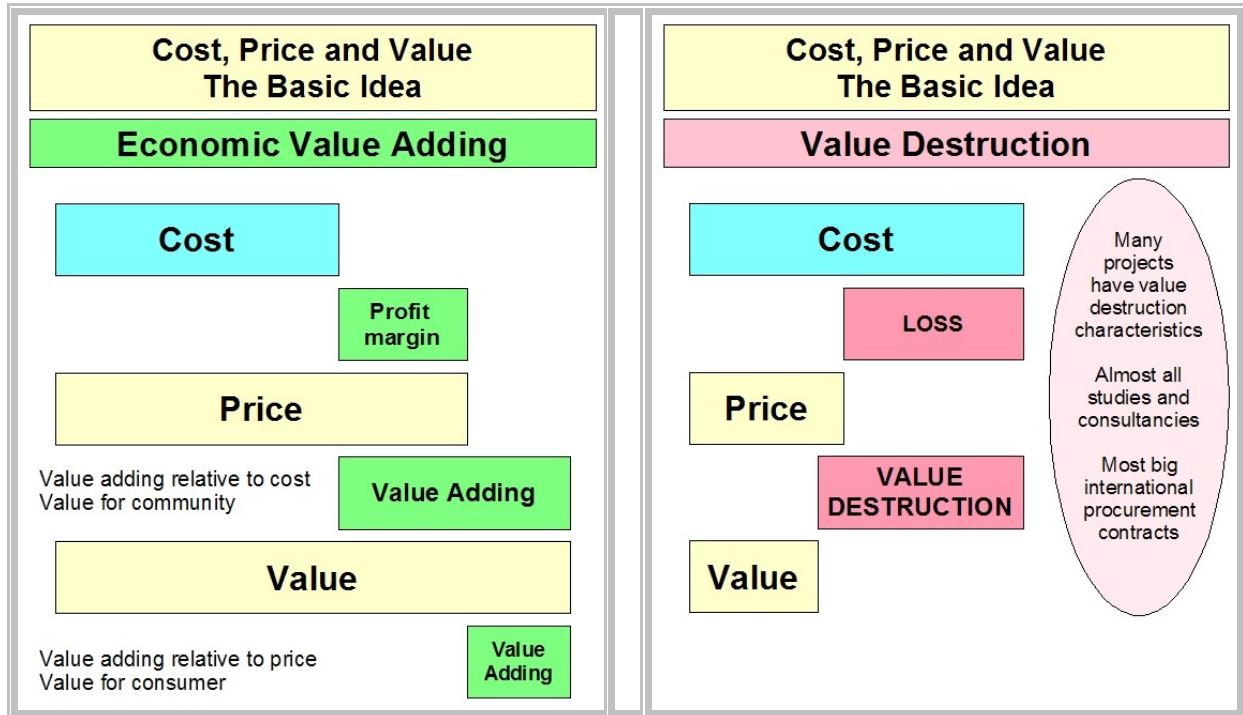
But this is clear.



# UNDERSTANDING COST AND VALUE BEHAVIOR

## COST, PRICE AND VALUE AND VALUE CHAIN

Price has an important role in the matter of economic incentive ... and the question of sustainability. The value chain works and is efficient when the transfer pricing through the value chain provides a reasonable rate of return on capital employed within each piece of the value chain. If any of the links in the chain become unprofitable, the value chain becomes dysfunctional.



## **COST, PRODUCTIVITY AND IMPACT ON SOCIETY**

Cost is the most important parameter of economic performance. Cost is a derivative of productivity. If cost is low ... it is a proxy indicator that productivity may be high.

Productivity is the single most important reason that modern society has potential ... modern society can do things today that were impossible only a few years ago.

In numerical terms, I suppose this means that productivity went from one over infinity (infinitesimal) to something measurable.

Cost is only a proxy for cost because there are several elements to cost, most important of which are the following:

- What was consumed
- How much was consumed
- The unit costs for items consumed

Some of the consumption may be labor, some materials, some equipment and capital. Productivity is a function of the amounts of these things consumed for a unit of output.

Cost is the derivative when the amounts consumed are multiplied by their respective unit costs.

Low productivity low wage areas may have lower costs than high productivity high wage areas. Corporate profits ... which are determined in large part by costs ... are maximized by focus on production in the lowest cost areas. Social value may or may not be optimized by corporate profit maximization.

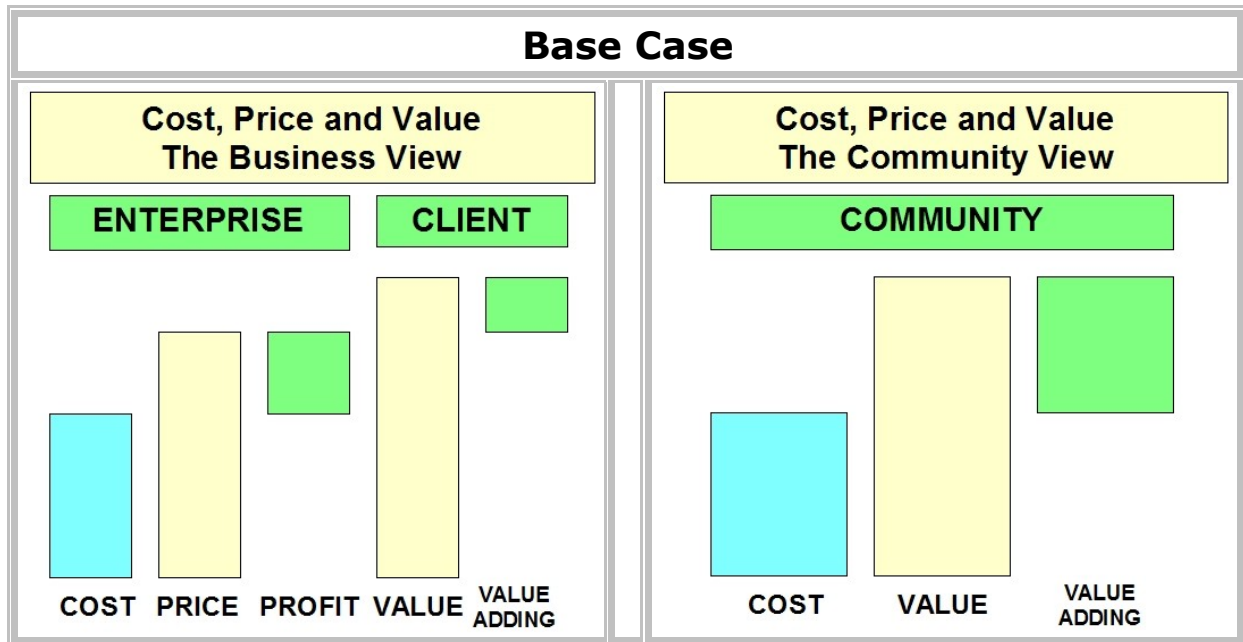
Agriculture is one of the few industries where the United States has retained a position of global competitiveness. The productivity of American agriculture is impressive, though there may be important questions about its environmental sustainability. That aside, American agriculture produces enough food for all of America, and enough for massive exports and does it using only 3% of the population. In contrast most of the countries that are poor have a large proportion of their population working in agriculture and not very much is produced. This is a crisis of productivity ... which should have an answer.



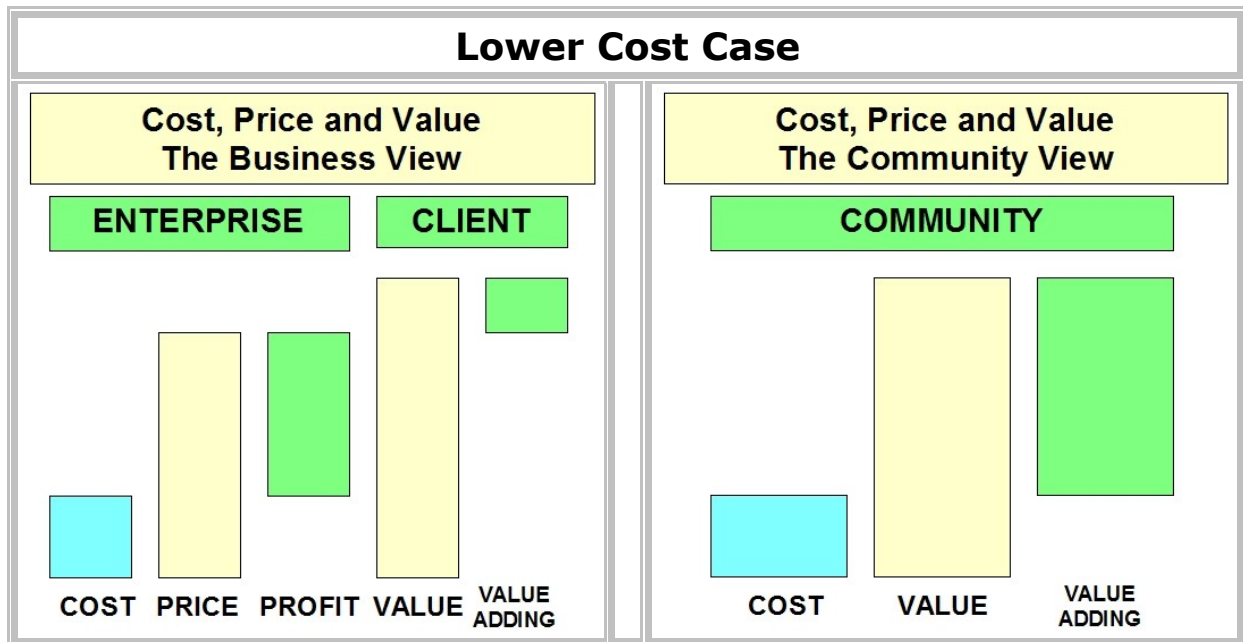
## HOW PRICE IMPACTS COMMUNITY

Price is a key variable in the performance of society. It is not as important as cost, but the way price is used in society determines the way value is shared between the various economic actors. The following graphic shows how an economic transactions that has costs and value is shared between the enterprise and the client depending on the price being applied to the transaction.

For society as a whole the value adding is the difference between the value and the cost. For the client the value adding is what is left of value adding after the enterprise has taken out its profit. In the profit maximizing enterprise the goal is to have profit as much as possible, and the amount left in the hands of the client is of little consequence.

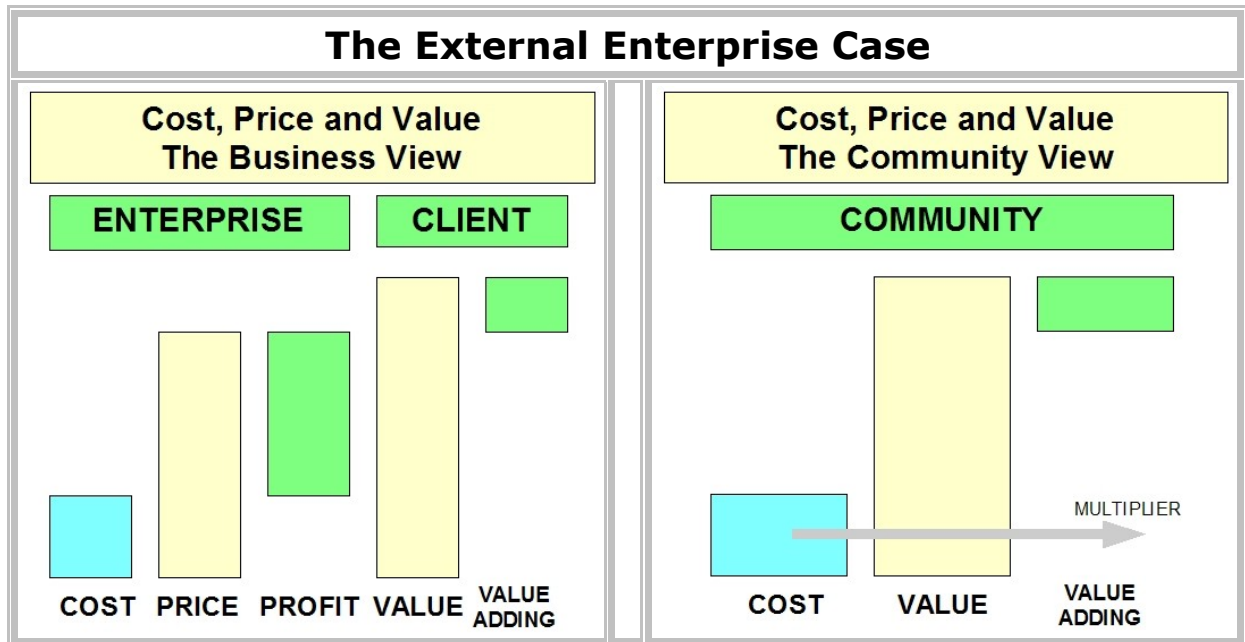


In a lower cost case the enterprise profit increases at the same price point ... and the amount of value derived by the client stays the same.



If the client and the enterprise are in the same community it does not matter so much whether the client or the enterprise has what share of the value added ... but where the enterprise is from outside the community it matters a lot. In the case where the enterprise is external ... the case of Foreign Direct

Investment (FDI) for example ... the value adding for the community is small because the profit leaves the community. If the costs are incurred in the community there is some multiplier effect ... but typically local disbursements are small and most of the costs, as for example in mining are equipment, fuel, expatriate payroll .... with rather little value for the community.



## Timeline of costs and values

The following graphic shows the very different timeline for incurring costs and realizing values. This is a critical problem in development and not central to much of the development planning process that is practiced.

As a practical matter most of the cost have been incurred before it can be shown that there are any benefits ... and this provides a dangerous opportunity for costs to be misused long before the lack of benefit raises questions about performance.

