

# **Regionalwert AG – Strengthening the regional economy with citizen shareholder support**

## **Introduction to the English translation**

In Summer of 2014 a new book on regional economic development and social entrepreneurship practices came out in the German bookstores. Its title: “Regionalwert AG – Strengthening the Regional Economy with Citizen Shareholder Support”. Christian Hiß, author of the book and founder of the enterprise Regionalwert AG, describes the concept, the background and the first years’ experiences with this innovative approach to support and further develop the regional ecological agriculture and food economy.

With an increasing interest outside Germany, the author decided to have parts of the book translated into English and uploaded on the AGRONAUTEN web-site. A full translation will be made available depending on the number of downloads that will be recorded within the next few months.

The following excerpts reflect the most important ideas contained in the book. The purpose of Regionalwert AG is to allow for sustainable agriculture and food supply through an active participation of local citizens. At the core of the enterprise lays the notion of value-added chain, which argues that the regional agricultural sustainability is tightly connected to and dependent upon sustainable regional processing and supply services. Regionalwert AG switches the economic focus back to people – both entrepreneurs and investors – and to their incentives for cooperation that allow for new regional economic opportunities with economical, ecological and social gains for all involved. After seven years of practical experience, the author puts together practical ideas and strategies for showing how this concept that was successfully developed in the German region of Freiburg can be transferred to other regions of the world.

Regionalwert AG subscribes to a world-wide increasing movement for regional and ecological food production and supply, and provides a straightforward case of successful social entrepreneurship.

*Translated by Crina A. Vasiliu-Kienle*

## 2. How it all started

Regionalwert AG came to life seven years ago in the Freiburg region of Southern Germany through my efforts to turn an agri-horticultural family business into a publicly held company with an innovative shareholder structure. This was a milestone in the development of what previously had been a family business in the community of Eichstetten am Kaiserstuhl. Before that, another significant step had been taken in the 20th century, at the beginning of the 50s, by my parents, who had converted their farm and their land into a bio-dynamic sustainable operation. As a prisoner of war in England, my father, Karl Hiß, became familiar with the concept of ecological farming and brought it back to Germany in 1948, when he returned home to Kaiserstuhl. Together with him, a few other young farmers from Eichstetten began practicing ecological and sustainable agriculture, so that the small community of Kaiserstuhl became in the 60s the centre of ecologic farming in Germany.

Following my training as a gardener, at the age of twenty-one, out of my parents' farm I started a small vegetable farm. An entrepreneurial initiative in partnership with one's parents was not something common at the time, but rather a confident way to take over the family farm and to pass on the inheritance. For us it was a prerequisite for a successful relationship within the narrow confines of a family. My parents realized the importance of providing the next generation with sufficient opportunities for entrepreneurial experiences and decision-making as a way to encourage the young people's personal choice of continuing to work in agriculture. Besides following tradition, the decision to pursue personal goals while taking into account social and environmental factors was my line of approach for setting-up my own farm throughout the 80s and 90s. Right from the start, my wife and I have grown a large variety of horticultural produce. We cultivated all kinds of regional vegetables and with them we supplied a small, but efficient market in the city of Freiburg. The direct contact with customers was at the heart of our operation.

A trip to the Netherlands in 1990, where I met several Dutch gardeners, made a major impression on me, which has affected me to these days. I went there strongly believing in the success story of Dutch agriculture, only to learn quickly from several sources that it was largely a myth. First we found out that most of the vegetable seeds used in the Netherlands and in Germany were produced in the Saudi-Arabian desert. Although I was a gardener myself, I had never heard about this before. From that moment on, I decided to commit myself to public access and distribution of seeds by beginning to produce seeds for my own farming and to contribute to both a national as well as a regional initiative for open access to genetic resources from food crops.

Second, I learned that the largest part of the Dutch production of fruits and vegetables grew wrapped in mineral wool within closed systems, no longer having any ground contact. As a young gardener that grew up with bio-dynamic agriculture, it had never occurred to me that this kind of agriculture might be pursued. Nevertheless, I had to acknowledge that the rationale behind the development and introduction of food production obtained in a synthetic and highly technological space had been derived from the ecological agriculture. Closed systems and

computer programmes with regulatory growth functions turned out to be more environmental friendly by preventing the leaching of nitrate in groundwater and helping to obtain a less contaminated harvest. The greenhouses that we visited looked like laboratories and had very strict measures of hygiene. What struck me was the thought that very few consumers were aware of this kind of food production and its extent. That means that the food produce we are eating is no longer growing and maturing in natural soil, but on an artificial substratum. And so I asked myself, how can it be that such a fundamental change in food production is occurring without public awareness?

I also had to acknowledge that there are and there will continue to be different interpretations of ecological protection and nature conservation. The one option that I encountered in the Netherlands was favouring a highly effective production in a small artificial space. The harvest of tomatoes in closed systems could be ten times higher than ordinary ground harvest. The argument made was that the space taken up by food production is reduced and in this way larger parts could be returned to nature. Over the years, I realized that the arguments against technological progress are not that easy to make and that they are a challenge for ecological agriculture. What could make a strong argument against laboratory food cultivation, as long as it protects the environment better than traditional agriculture? Not even the assumption that food obtained through artificial measures is lacking certain nutritional attributes. That I learned later from a research project, which I conducted in my own garden in order to test the quality of conventionally cultivated plants. In this way I understood that the method chosen for cultivation can only be evaluated from the perspective of its overall social, ecological and regional impact. And so came around the question as to who decides what type of agriculture and food production is best?

The third critical information we received during the trip was that the suicide rate among Dutch farmers was the highest in Europe. At that point I raised the question: how can this be, given that Dutch farms are rated to be the best on the continent? They benefited from state-of-the-art technology, had highly qualified management and a market leading position in Europe, but were nevertheless confronted with this human tragedy. The answer I received was quite simple: through constantly new innovative technologies in horticulture, family farms had become heavily indebted and no longer had any resources they could commit to their operations. Management consultants advised that the only way to further develop production and to remain successful on the market was to continue adopting the newest technology. Industrial innovation had become crucial for survival among competitors, such as other Dutch and German farmers, and the large food retail chains, who were targeted by the producers, took great advantage of this situation.

To me it appeared that we should re-assess the way in which we define progress. What principles should I use to develop my own farm in the future? The way in which conventional business practices are used in ecological agriculture ignores the human factor, only taking it into consideration from the perspective of production and cost factors. Highly technological production within closed systems can protect the environment allegedly better than traditional land agriculture, seeds for local farming are produced somewhere in the world, and plants are grown under laboratory conditions and under patent protection. Against such strong arguments,

what was left to defend ecological agriculture? Dealing with these issues turned out to be fundamental for my formation as a gardener. I wanted to understand the basic assumptions behind each of these positions in order to make critical arguments and to not simply build my work on preconceived assumptions.

Through articles, talks and presentations, I began raising these questions within my existing social network of colleagues and customers. Once a year we invited to our farm a large and very diverse group of people from the village and from the city to have detailed discussions about the essential requirements for agriculture. From these peer dialogues I was hoping to get feedback that I could use for the development of my own farm. What kind of agriculture do we want? was the fundamental question that we tried to answer. Over the years we have become confident that new ways have to be found in order to open new perspectives for rural areas, villages and farms. The damages and losses produced by the current economic model, which could no longer be ignored, came up as a recurring theme. The number of farms was diminishing significantly, the village infrastructure was falling apart, the cultural landscape was becoming uniform and free genetic resources of various kinds of crops were deteriorating. How could the process be stopped? And should it be at all stopped? What was to be done if most producers and consumers wished for a different kind of agriculture and complained about the developments, but the movement towards a generally not desired direction could no longer be stopped? We chose to concentrate on the following questions: Firstly, Who actually controls the development? Secondly, What kind of reality do we want to have?

Some suspected the dominating control of an invisible hand that was taking decisions all alone and was turning things into realities that the majority did not desire. Another assumption was that people have different wishes and realities, meaning that they want one thing and do another, and so they construct a reality, which is opposite to the one they actually want to have. In our context that meant that consumers wished for a different form of agriculture, with all its positive aspects, but took opposite economical decisions when making their purchases.

I experienced a similar attitude from my colleagues. When I began producing my own seeds at the beginning of the 90s, their reaction was: "Your initiative is important, but it's not worthwhile doing it." At the end of the 90s, when I built a new barn for the dairy cattle, my colleagues said that keeping dairy cattle is not worthwhile. When I began taking on apprentices, my colleagues said that training young people is not worthwhile because the costs are higher than the returns. Every time I asked what they meant by "not being worthwhile", I was told that my activities were reasonable from the perspective of a sustainable agriculture, but that the economic conditions have changed and prices have gone down because the city folk no longer wanted to pay much for their food.

My personal and professional contacts with people from the city, however, made me doubt the belief that they were responsible for the challenging development. After many discussions, I came to the conclusion that their line of reasoning was quite the opposite. There was a serious concern about the development of agriculture on their side, but the weight of responsibility was laid on the producers.

To me it became clear that both sides were following the same objectives, but that they were missing a binding structure for a solid and contractual agreement, one which could have helped them reach their mutual goals. The market was too weak and too corrupt to take on the binding role. We came to the conclusion that we had to bring both sides together in order to design a common strategy for local agriculture and food sector.

In our meetings we were surprised to see that the participants from the city often had a romantic and rather outdated picture of agriculture and farming, one which had little to do with existing realities. Confronted with the actual facts, most participants expressed their preference for a different kind of agriculture, but no one had a clear idea as to how this should come about. It was clear that nobody wanted to go back to the past, where prosperity and technical achievements had not been available. And still everyone shared the point of view that a single and universal type of development towards an industrialized agriculture had to be revised. Preferences went towards small farming and its positive attributes. But what were the criteria for small farming and how could it stand a chance under the existing conditions? The mission was to either adapt the ideals to the current reality, or to build a future that was to be better in accordance with these ideals. The recurring and central question for the stakeholders remained: What kind of agriculture do you want to have?

It was clear to all involved that there were no straightforward models. But still, we tried to come up with an alternative by working in diverse groups. Farmers, researchers, economists, retailers, city mayors, city councils and consumers all took part in these discussions and in 2005 a feasible alternative emerged.

Its main points were:

- A new social institution is needed to provide an operative structure for local citizens to actively plan for the regional development. Such an institution could not be just a farmers' initiative because it would then address only one side's interests. All involved in the economy of the agriculture and food sector should contribute with their views and have their share of responsibility.
- The social and ecological achievements and impacts of agriculture have to be acknowledged and compensated for accordingly; otherwise it can no longer be practiced and is at risk of getting lost. Its benefits on an individual and on a social level have to be better identified and exposed before the losses are too high and irreparable. In this context, producing food cheaply is no longer sufficient.
- The distribution of work and the technical development in the food production sector shouldn't be reversed, but new ways have to be found to still maintain the diversity within and among farming operations. The traditional image of a farm that produces everything that is necessary for the living of a family has to become the basis for a local associative network of (co-)operations – from the field to the plate – as a regional supplier.

- Farm succession to non-family members has to be supported through suitable financial means because at a social level the involvement of the next generation is needed to provide for a dynamic rural environment. Traditional farm succession within the family no longer ensures the presence of a sufficient number of young people, and farm succession to non-family members has very little chances of getting financed.
- Market economy has to become the key to the new type of regional development; otherwise all efforts will be useless. In the process, the ecological and social capital of our region should be held equal to the financial capital. We wanted to conceive a new economic concept based on local structures to counter the universally determined economic model.

After the conceptual criteria were determined, it was necessary to find an organizational structure that was suitable to allow the implementation and to institutionally sustain the newly generated ideas and wishes. After the pros and cons were weighed against one another a public company with an innovative shareholder structure was found to be the best option. The search for a name began and at the end it was decided on Regionalwert AG. With its establishment in the Fall of 2006, Regionalwert AG began a journey into the unknown.

The initiators never expected that the concept would receive such recognition among experts and within society at large. They also didn't count on providing a model for other regions. Their purpose had simply been to undertake something for the autonomy of their region and of their food production, and to search for an alternative to the structural change in agriculture and in the food sector. However, the feedback has been extremely positive, the organization has been awarded several prizes and enquires have started to come in from other regions. This has also been supported by the fact that there is increasing pressure for sustainable economic activities, and that the topics raised and tackled by Regionalwert AG are current.

After seven years of practical experience, we can say the following about Regionalwert AG:

The journey was cumbersome and faced hurdles along the way – many small, some big ones. But the initial entrepreneurs, the management and the supervisory board took advantage of every opportunity to learn and to adapt the process from a theoretical to a more and more practical level. The positive results that we see today have convinced us that it was worthwhile undergoing this process. The value-added chain within the administrative region of Freiburg now holds sixteen enterprises, which have been completely or partially financed from the capital resources contributed by 520 shareholders. For some entrepreneurs this turned out to be the only possibility to establish their own business. Despite being still in an incipient phase, the organization's many accomplishments can serve as a solid basis for the next steps.

In the meantime, Regionalwert AG Isar-Inn has been established in the region of Munich, and other Regionalwert AG operations are starting to constitute themselves. For this reason we found it necessary to explain the main intentions behind this concept and to describe the first practical experiences.

A great help was the acknowledgement of this new concept by Ashoka, a non-profit organization that supports social entrepreneurs – namely those, who find the courage to try something new. By becoming a member of the Ashoka network, I gained insight into the overarching connections between politics and economics, as well as more confidence to continue on the path I had started. It also helped meeting many people that were not satisfied with the existing situation in their own sectors and were trying to make changes to the benefit of the society and to their own benefit.

This handbook describes key guiding principles, formal requirements and practical experiences derived from the first years of operation. Writing this book earlier would not have made sense, as the most relevant aspects occurred within the last and first practical years.

The most satisfying experience turned out to be the ability of Regionalwert AG to provide a platform for questions, criticisms, rejections, movement, initiative, enthusiasm and perspectives. This allowed for the fleshing out of some initially only “straw-man” concepts and for the emergence of new ideas that had not at all been obvious at the beginning. Even the critical rejection of the new concept of civic-rural property by sceptics from various agricultural and regional institutions was a source of creative power because it motivated the initiators and those responsible to reflect on and to adjust the problematic issues, or to refine their arguments.

This handbook has been designed for all of those interested in the concept, for those who are already – or who are considering becoming – Regionalwert AG shareholders, for entrepreneurs partnering with Regionalwert AG, who can in this way acquire a better insight over the various chances and possibilities that the organization offers. It should also provide first written information to those, who are considering the possibility to finance their operation with capital from Regionalwert AG; and, of course, there is a large amount of information for those that are interested in establishing a Regionalwert AG in their region.

The various short guest commentaries show that the concept of Regionalwert AG is recognized as a real option and it is to their authors that I would like to express my gratitude; the discussions from the first years brought Regionalwert AG a long way forward. Sincere thanks to those, who helped with their participation and critiques to bring it into its current shape. A very special thank you to the first shareholders for their confidence in the concept and in the people that stood behind Regionalwert AG, and last, but not least, to the entrepreneurs, who took the risk to finance their operations with regional funds and to venture into a capital partnership. It goes without saying that my acknowledgements also include the members of the supervisory and of the managing boards from the initial years – without their effort it wouldn't have been possible to achieve so much in a period of seven years.

The aim of Regionalwert AG is to encourage entrepreneurship with regional focus and a broad thinking of economy within a local context. It intends to expose aspects, which have been overlooked by the conventional market economy and by the short-sighted capital economy, by putting into perspective and re-evaluating the economical scale of values. Ideally, the performance parameters of agricultural and regional economy would be broadened to include social and ecological elements, which would be reflected in the annual financial statement. The

future success of this initiative depends largely on those directly involved in the process, and not on a system. The re-localization of the power of production and of accountability is the actual improvement that could be achieved through Regionalwert AG.

### 3. Idea and scope

#### 3.1 Regional economy

More than an enterprise, Regionalwert AG is also a social innovation. Its purpose is to create a sustainable regional economy through a participatory and sustainable approach by making it possible for citizens to hold equity shares in local ecological agriculture and food sector enterprises. Here are some of the specific features of Regionalwert AG, all of which provide support to strengthen the regional economy:

- From a practical perspective, Regionalwert AG makes the connection between urban and rural areas, producers and consumers, farmers and non-farmers. Its purpose is to generate a form of *New Local Deal*. In practice, some are making available the financial capital, while others are contributing with their ideas and skills, and in doing so, together they are gaining control over regional agriculture and food production. This sets the basis for a local culture of working-relations and decision-making, with the purpose of serving the individuals, the environment, as well as the society.
- From an economic perspective, Regionalwert AG intends to act as a functional intermediary institution at the level of regional ecological food supply between micro and macro economy, between financial and real economy, and to obtain a multidimensional profit. Returns and impacts of economic activities remain in the region and increase local assets, since the shareholders hold shares in the ownership of operations. When operations are profitable, the citizens, as shareholders, are directly benefiting.
- From a regional political perspective, Regionalwert AG takes on a regulatory function within the regional development through concrete capital investment in rural enterprises. It provides a framework with its own unique “vanishing point”, one which creates a new alternative and, as such, it holds a reality generating function.
- From an operational perspective, Regionalwert AG supplies regional enterprises with various set-up and development support through networking and consulting services in the pre-start-up and start-up phases. It is the focal point for those looking to buy or to sell a farm, it takes over agricultural land and farms without successors and makes them available for ecological farming to young as well as to experienced farmers. Its primary purpose is to finance non-family farm successions. It develops ideas for meaningful networking and further regional economic development, and implements them together with entrepreneurs.
- From a social perspective, Regionalwert AG aims to bring forward those, who are responsible for food production and for the preservation of the living environment, and to restore their dignity and visibility, which have been lost behind the curtain of anonymous competition. A partnership on an equal basis should be established between those and the shareholders. Instead of mere demands from an anonymous market, there will be a genuine interest in the work of regional enterprises.
- At a community level, Regionalwert AG creates a platform for meetings and debates on the basis of a concrete topic. These encounters help the participants develop social

competencies, which are getting lost through the breakup of traditional social structures, but which are necessary for social cooperation by virtue of elective affinity.

The aim of Regionalwert AG is to achieve food sovereignty in fairly small regional areas in a manner, which is economically profitable. The ownership of land, seeds, energy, capital as well as dead stock and livestock is completely or partially in the hands of consumers and entrepreneurs. A family enterprise providing *all that is necessary for a living* – as it has been the case in the subsistence economy – is now replaced by well organised value-added chains made up of individual self-dependent businesses, which see to the economic and cultural autonomy of the region. Regionalwert AG is a choice for those, who care to become active and to take on responsibility for their region and for their daily food, either as entrepreneurs or as shareholders. It is an opportunity to re-generate that, which has become lost in the past decades through the doctrine of global economy. Instead of the invisible hand of the market or of the anonymous market, there will emerge responsible enterprise partnerships that will establish the independence of the regional food supply from global economic links. Through process that are transparent and takes place in close proximity, reasonable ecological and social practices will be set on equal footing with relevant economic practices. Regionalwert AG intends to return to producers as well as to consumers the responsibility and the capacity to act, and to show that there are ways to put an end to food waste, to stop the irrational use of resources and to curb the disappearance of farms.

To this end, the instruments of market economy will continue to be used, but their meaning and their economic purpose will be readjusted. There will be a conscious use of progress, but it will be implemented in relation to regional conditions. Special attention will be paid that the technical progress should not affect the local food sovereignty. In crop cultivation, regional open blooming plants will be chosen over hybrid varieties for economic value purposes, because access to the cultivar is free and it is not patent protected to the benefit of a small group of owners. The rationale behind keeping livestock on a farm is not based on a long outdated principle of agriculture, but on the fact that the animals produce fertilizer that provides for the maintenance of soil fertility. The same applies to the protection and build-up of soil fertility, which is a benefit rather than a loss. A variety in production that leads to a variety in cultural landscape will be considered an economic basis for survival and will be counted as capital, contrary to erroneous current management principles, which count it only as a cost.

The economics that Regionalwert AG intends to generate can only be partially put on the same level with common good economics. Regionalwert AG believes in the prevalent feature of *Homo oeconomicus*, the human being as benefit-maximizer, who is foremost driven by his own interests. The focus of a Regionalwert AG shareholder remains the personal benefit; what changes is the investment perspective that expands beyond the financial profit to include paradigms of existential necessities, such as a sustainable supply of daily food and a long-term diverse living environment. The Regionalwert AG shareholder reckons with a multi-dimensional profit, including the financial gain. However, his gains don't exclude the common wealth gain.

### **3.2 Civil social entrepreneurship**

Regionalwert AG falls under the still relatively new business category of social entrepreneurship and has come into existence as the result of a mixture between a future rationale of economy and experiences with past practices. After the traditional economic models have begun to wither, it has become necessary to develop concepts that allow for a sustainable economy. This perspective has made place for a new approach to economic thinking and practices. The concept of social entrepreneurship brings together a number of ideas, approaches, directions and intentions of future economic models. The direct German translation of social entrepreneurship is not quite a fortunate one because it easily leads to a connection to the sector of social and welfare services. A more suitable translation is that of civil-social entrepreneurship, which implies a tight connection between civil society engagement and professional business management, and grasps the full economic impact of this type of enterprise.

In addition to this definition, which is easy to read and to comprehend, there is a need for a radical change of perspective to avoid the emergence of significant economic blockades. Social entrepreneurship challenges old conventional practices; if it is to have a chance, then concepts such as profit, capital, benefits and costs have to be re-assessed.

The conditional change in the thinking paradigm is that the human dignity should be held inviolable also from the economic standpoint. From the political and judicial perspectives, this fundamental right is no longer questioned and it is more or less guaranteed in established democracies. However, in the economic context, it is constantly and universally violated. When money comes into question, every form of moral integrity vanishes as if it has nothing to do with economics. Human dignity is automatically placed behind and benchmarked against performance indicators. Monthly or quarterly red figures lead to reproof; does the colour change to black – and the darker the better – a revaluation comes into sight. All other parameters become irrelevant. The heroes of our times are those financially successful, independent of the amount of damage they produce. And the losers are those, who produce value that cannot be quantified in figures. This is not only a societal, but also a personal phenomenon. Social entrepreneurship holds human dignity as the fundamental basis from which it moves towards economic aims. Its primary motivation centres on the common benefit, and financial gains come second. This doesn't mean that social enterprises don't take financial gain into account, but that in this case money is not allowed to hold any power over human destinies. It is just a human practice, because money in itself doesn't have any power – it is just used to acquire it.

Another important question is: what is our understanding of profit? The first thing that comes to mind is money, but is it really so, that money plays the most important role from the perspective of economic gains, and that all other benefits, performances and values come second? It is already common knowledge that money can bring satisfaction and a sense of fulfilment and meaningfulness only to a certain degree. Besides money, there are a number of values in the absence of which material prosperity becomes relative. But what criteria will be used in the future to measure these values? What parameters will be used to assess the work efficiency of

an entrepreneur or of an employee? Social entrepreneurship embraces the full economic effect and turns attention to the overall impact of the activity and not only to its monetary results. It sets the aesthetic judgment before the ethical individualism as the main category of effect measurement.

Social entrepreneurship also questions the role of the state as a complementary to the economy. Is it right to burden the state and therewith the community as a whole with all social and ecological costs that result from externalization? Or, given the constantly increasing state debts and the resulting social and ecological global damages, would it rather be necessary to analyze the situation from a different perspective and to revolutionize the economy so that, through the internalization of external effects, no damages occur, or if they occur, those responsible are held accountable? Social entrepreneurship goes down a different path and tries to interpret economics from a different perspective by taking into account the ecological and social impacts of the existing economic model. This approach reduces the financial burden of the state by making the economy bear the costs of its own damages.

Social entrepreneurship tries to bring down the controversy over sustainable economy from the global to the regional level, because a global and moreover an abstract definition doesn't make much sense. Only concrete conflicts and reconciliations among local citizens affected by real and practical economic issues are reasonable and bring along progressive change.

Social entrepreneurship means that no longer individual actors from politics and economy can draft alone the road into the future, but that the "right" choices will be made through a cooperative civil society entrepreneurship, that is through a regionally organised and a dialogue-open process based on voting.

### **3.3. Mission Investing – it boils down to the impact**

For some time now, at the latest since the financial crisis, a new concept has made its way into the financial economy lingo – Mission Investing. It describes a trend that aims to help investors take into account a broader spectrum of criteria when making their investment choices. Instead of considering the financial return to be the sole criterion, it has become more common to question where and what is the impact the money has, and who uses it. In other words, qualitative investment criteria also play a role, and besides financial, also social and ecological factors are being addressed. This new strategy should not be mistaken for donations to NGOs, in which case the investor has no financial return. Through Mission Investing there is a justified claim on a financial return; the capital is invested and should have the impact intended by the investor.

This modified approach to investment is particularly relevant for foundations, which normally own rather large amounts of capital that is invested in the financial market for a return that is used to support their charitable purpose. Here is such an example:

A founder has set-up a foundation with the purpose of increasing the level of education in poor regions of the world by supporting the building of more schools. Until now, the rule has been that the capital of the foundation is invested in the regular financial market with an expected high return that is used by the foundation to build schools and to transfer their ownership to the non-profit education system, or to provide building support by using the interest yield from the investment. However, the source of the interest yield has never been questioned. In this way, it is possible that the investment source of the revenues is conflicting with the purpose of the foundation and that the overall impact is negative – in other words, the social and ecological damages caused by the investment are higher than the positive impact it produces.

A clearer example:

The purpose of a foundation is to clear the remaining land mines in war regions by using mine clearance equipment. The source of money for this activity is the interest rates resulted from shares held in weapon manufacturing enterprises.

In such cases, a Mission Investing strategy would have a different approach:

A foundation, as investor, builds a school by means of the foundation capital and keeps ownership of the building. Through this investment, it provides local children with an opportunity to attend classes. The actual rent that the school pays should reflect the amount of write-down, so that the value of the materials and of the construction doesn't depreciate. The impact of the source of interest rate for the investment is calculated according to the purpose of the foundation. In this way, the annual impact report becomes an important part of the contract and it makes possible an objective analysis of the overall impact of the investment. Through the means of the report, the school authority provides an annual account on the number of children that attended classes, their graduation certificates and the impact of school education on the local environment, as well as on the regional economic wealth.

As in the case of foundations, it would be good if every investor were to calculate the impact of his investment on the basis of broader criteria, because every investment has an impact. There is no such thing as an "impact-free" investment.

Although Regionalwert AG is not a foundation, it can be classified under this category. The investors of Regionalwert AG, namely the local citizens, carry to ensure through their investments that production, processing and commercialization enterprises from the agricultural sector are being created. Investment returns – financial as well as social and ecological – will be realized through the entrepreneurial activity of each individual facility manager. Specifically, an investor makes capital available to a farmer, to a baker or to a retailer, and in doing so s/he allows the later to generate the impacts intended by the investor. Regionalwert AG evaluates each year the financial as well as the social and ecological returns of its investments, and presents them to the investors at the annual stakeholder meeting and through the annual report. When both types of return are in equilibrium and generate positive value, it is a sign that Mission Investing has been successful.

### 3.4 The Business Purpose of Regionalwert AG

Mission Investing was the incentive that led to the creation of Regionalwert AG in the Freiburg region. Over the years, at the invitation of Christian and Andrea Hiß, as well as Uwe and Grunhild Pörksen, a sometimes smaller, sometimes larger group of people from the Freiburg region began to meet regularly to search for reasonable ways to handle agriculture in the future. These meetings led to discussions, to evaluation of pros and cons of existing models and eventually to the first concrete step in 2006, when the Hiß family – an experienced farming and gardening family – brought its established organic farm as seed capital into Regionalwert AG. Noteworthy was the composition of the group of participants that advanced the process throughout the years. Nevertheless, it turned out to be possible to discuss seriously about the future of agriculture in the region within a professionally heterogeneous group, and to heave the concerns regarding the uninspired development concepts of the new regional economy. In that respect, a very important aspect has become intrinsic, namely the responsibility assumed by the civil society for an initially state controlled task: the regulation of regional development in the rural area. People were determined to deal directly with the regulation of their regional development and in that way to create a counter balance to the uncontrolled aggressiveness of capitalism and its devastating consequences on the quality of food products, on the set-up of the cultivated landscape and on all other areas of life that were affected by this kind of economy.

From the very beginning, it was clear to everyone that the problems of farmers were also the problems of non-farmers because there is no other sector in which the mutual dependency is so existential. By the way, as far as farmers are concerned, they make up a highly endangered species – right now only one percent of the gainfully employed population are active in agriculture and the numbers are going down. They are replaced by highly technological farms with mechanical and industrial power, the kind of which are even harder to harmonise with the concept of peasant. The question whether this is the suitable type of development or whether we need different kinds of agriculture shouldn't be given a global answer; instead it should be tackled through a civil society based process by rural regions and villages residents, who are directly affected by the process.

In this constant debate, a binding instrument or an authority is needed to make involvement and participation efficient through distribution in groups of manageable sizes and through good organisation.

The business purpose of Regionalwert AG is contained in the Articles of Incorporation as follows:

#### § 2 Objectives of the company

1. The objective of the company is to participate in enterprises from the region of Freiburg as well as to fully or partially lease these enterprises. The company intends to contribute to the preservation and improvement of a sustainable ecological and regional economic and social development, ranging from agricultural farming to final consumption of food products. To this purpose, the company establishes a

value-added chain, in which producers, retailers, service providers and consumers actively interact with one another. The company wants to make possible the assumption of personal responsibility by making transparent the prerequisites and the outcomes of a viable economy through social and ecological balances. The company reports publicly on its duties and on the results of its work, and interacts with concerned citizens.

2. The company is allowed to engage in every form of economic, research and cultural activity, which is suitable to provide direct or indirect support to the purpose of the company.

The greatest challenge for Regionalwert AG and its representatives has been to overcome the external lack of knowledge as an economic factor. This means that in order to be able to assess the value of shares stocks it is necessary to be familiar with the situation in the conventional food sector, and to use it as a basis of comparison. The value of the alternative form of agriculture can only be calculated after fully understanding the depreciation that derives from the transformation of food products into commodities and of agricultural farms into technical production units. This is an elaborated and expensive process, which requires the involvement of all affected parties.

### **3.5 A broadened concept of capital**

By supporting small-scale regional agriculture, does Regionalwert AG finance a type of economy, which has long become obsolete? Haven't the agriculture and food economy finally come to the point of making prosperity a world concept through the industrial approach and with the help of modern market economy? These questions need to be answered because there are a number of pros and cons that should be taken into account.

The phenomenon, which for the past sixty years has trivially been described as structural change in agriculture, shows its true face and the full dimension of its devastating impact in the 21st century. The so-called "Green Revolution" devours its own children and especially their material means. At the time when Konrad Adenauer promised in his memorable State of Nation address from 1954 the arrival of a golden age for agriculture provided that it adopted the operational guidelines laid by the "Industrial revolution", the percentage working in primary agriculture was still at 35% in Germany – in Southern Germany mainly in subsistence farms, in Northern and Eastern Germany rather on large estates with high numbers of land workers. Today only 1% of the population is still active in agriculture, villages are increasingly urbanised and large farms are more and more industrialized and isolated. What is the benefit for farmers, if they altogether disappear? What is the benefit for non-farmers, if cultivated landscapes become deserts through monocultures, if industrial cultivation ruins the soil and if villages die through infrastructure exploitation and deterioration? Supermarket shelves are fuller than ever before. There is so much food produced that we can afford to throw away half of it. Affluence is the drug that hinders a clear view on the shortage that hides behind it.

The founders of Regionalwert AG had from the beginning a different understanding of the notion of capital. For them, the term contains both the fertility of the soil as well as the professional

qualification of people working in agriculture. Although conventional accounting principles also consider soil to be an asset, it is generally ignored that through unsuitable cultivation practices that make it barren, the soil loses its value and can no longer be used – unless it is turned into a highway, or used to raise a house.

Biodiversity as the basis of all life forms has a value in itself, and a loss of biodiversity means a loss of wealth. This constitutes a challenge for existing accounting methods and rules that need to be revised and extended in order to reflect the fact that ecological and social activities produce not only costs, but also generate financial revenue.

In the future, causing ecological and social damages should bring about loss of revenue instead of additional money. This conceptual evolutionary claim was just as important to Regionalwert AG as the very practical question of financing a farm with non-family succession, or creating regional food sovereignty. Many people nowadays, in fear of an upcoming crisis, wish for self-supply in the old style and buy themselves a piece of land or even a farm, depending on the financial means. Sometimes it works out well, but to the initiators of Regionalwert AG this practice was too backward and they didn't see in it a long term solution. The cultivation of vegetables and fruit as well as the breeding of livestock still require certain professional qualifications, and it is a questionable way-forward if everyone were to begin to grow his own food. The concept of Regionalwert AG proposes rather that there should be a meaningful distribution of work also for food supply, that cultivation, processing and distribution should be left in the hands of qualified people, who would be mandated by consumers to provide basic supply in limited quantities, while taking into account social and ecological factors.

The extended definition of capital that is favoured by Regionalwert AG aims primarily at enabling this mandate, contrary to the anonymous market economy, which blocks it through a blind and aggressive competition, which has led over a few decades to an incredible loss of structural capital, capacity capital and nature capital, in favour of a financial gain to the advantage of a few. The discount market has achieved a massive accumulation of financial capital in Germany. This is actually nothing else but the exploitation of an independent regional security of supply – even though such a discount store is now to be found in every village.

Regionalwert AG intends to calculate capital revenue differently and to include values such as security of supply, lively variety and natural fertility into the profit and loss statement. This intention is often put on a par with idealism or even with ideological trade. However, the initiators of Regionalwert AG assume that this is the rather realistic understanding of economy, whereas the current reductionist model – which is already in the process of falling apart – does not have a long-term perspective, being based on an imperfect scale of values and on the wrong ideals.

### **3.6 Associative value-added chain**

A Regionalwert AG unit should always take into consideration the complete value-added chain, from soil to plate, for the following reasons:

Through work distribution and specialization in agriculture in the past decades, the individual steps in the food production process have been torn apart. The negative consequences are visible at the social and ecological level. Cultivated landscape deteriorates through various forms of monocultures, depending on the choice made by the regional farmer. Work demotes to dull, dreary tasks, farmers get lonely in their farms due to increasing technology. Nobody has any longer an awareness of the distances that are driven for the supply of food products; nobody can clearly grasp the actual relations within farms and food production factories. With the lack of visibility, grows along the lack of responsibility regarding natural resources, land, water and social conditions. In the end, all that counts is the price of goods paid by vendor or consumer, all the same. All other realities vanish behind the curtain of ignorance.

Organic agriculture has tried in the past to partially stop the trends to specialization, and for a long time it has given preference to the model of diversified agricultural holding, with its own production and marketing units. However, it turned out that especially farmer families are overstrained by the need for multiple skills and by the extra time needed to cover the full chain. Another model that has been practiced for many years is that of farming community. Several families live and work in a farm and split among themselves the various activities. However, in order to make this practice feasible, the farm needs to have a size that guarantees more families their income. This model has been often used and it offers non-family farm successors a good opportunity to enter an ongoing operation, when someone leaves the farm, or when the operation grows and new divisions are developed.

Experience has shown that coordination in farm management creates problems on several levels. Clear division of responsibility among areas on a multi-operational farm is not easy to accomplish and it often leads to social tensions. The basic problem of the current form of agriculture, the poor efficiency of individual operations in the value-added chain – such as livestock farming – is not automatically solved in a farming community. Why keep a stable on a farm, if it doesn't bring any profit? Wouldn't it be more reasonable to get rid of the livestock and to keep and further develop the profitable operations? These questions come up in farming communities, just as in family farms. Securing financing for set-up or for further growth is just as difficult for farming communities. And even though more managers can assume personal liability, it requires extra effort to take on the liability and to provide the equity capital.

Just as long as farming communities, there have also been associations for ecological farms. Most of them are non-profit associations that own the farm and lease it to a farm manager. There are reasons to question whether a non-profit association is the best form, but this is not the place to discuss them in detail. However, the most common critique has been that the association conducts business in a little active entrepreneurial style, but that farm managers are encouraged to rely on the support of partners, who want to expend their personal operations

together with the farm. The non-profit status is called in such cases the golden shackle because it constraints the direction and purpose of the farm.

The initiators of Regionalwert AG have looked at existing and established concepts, and have tried to learn from their practice. The binding element of all these concepts is the belief that new ways have to be found and practiced in the agricultural ownership and operational structure. Through a legal linkage that would distribute profits and losses over the entire value-added chain, it could be possible to achieve a balanced financial distribution among the various enterprises. This would provide a corrective framework for specialisation. The value-added chain and its impact should then be acknowledged as a whole. This is the reason why Regionalwert AG tries to put together the accounting data of the individual enterprises in order to achieve a comprehensive statement of all the operations within the value added chain.

### **3.7 Enterprise autonomy within the network**

On the ground or under the umbrella of an innovative shareholding structure, Regionalwert AG is an organized regional value-added chain consisting of individual autonomous enterprises. All steps of the value-added chain needed for the production of food produces are assessed on an individual basis; however, each of them can choose to specialize, while remaining a part of the whole. The negative consequences of the specialisation are partially or fully neutralized through the link-up to the structure of Regionalwert AG. The latter should be seen associatively and realized as such. This applies to the ecological, social as well as financial issues. Financial and social or ecological profits and losses of an enterprise can be of use to another enterprise from the same value-added chain. This structure makes it possible for individual units to deal better with temporary fluctuations and financial difficulties. In a Regionalwert AG network there could be included various types of enterprises, ranging from the most diverse forms of agricultural production to the processing and distribution of food produce. Also tourism and last, but not least, many kinds of services, such as accounting, controlling and marketing could be part of the value-added chain. The important element is that each individual partner enterprise has a free market orientation and that it is not forced by Regionalwert AG to work exclusively with the other member enterprises from the value-added chain. Experience has shown that a voluntary and, most importantly, a meaningful offer creates the basis for the best and most reliable form of cooperation. Nevertheless, the overall rationale of regional cooperation should also be evident in terms of ecological added value, and, in the long run, cooperation within the internal network should prove to be economically practical.

The table below shows the individual levels and their operational interrelation through Regionalwert AG. Many more enterprises could be added, as long as they belong to the value-added chain of ecological agricultural economy. More individual operations of the same kind could also be part of the chain.

Regionalwert AG  
REGIONAL VALUE-ADDED CHAIN  
Partner enterprises

Services	Agriculture	Processing	Commercialisation
Research	Vegetables	Bio-Catering	Wholesale
Real estate	Diary	Dried fruit	Delivery service
Accounting and controlling	Viniculture	Frozen products	Regionalwert organic foodstores
Marketing	Fruits	Convenience	Gastronomy
Business development	Animal husbandry	Bakery	Online trade
Funding consultancy	Energy plants	Butcher shop	
Plant breeding	Beekeeping	Fruit juice production	
Animal breeding	Eggs	Winery	
Start-up consultancy	Fish farming	Oil mill	
Tax advisory	Seed production		

### **3.8 Market entry for small businesses**

Not only access to land, but also market entry is existential for small agricultural businesses. In view of the convergence of retail and wholesale, of processing and of distribution within the food sector, farmers are expected to deliver quantities that are larger than what their small businesses can actually produce. Many have dealt with the situation by organising their own distribution, serving neighbourhood markets, opening own farm shops, or through direct home delivery. So-called CSA Models (Community Support Agriculture) and the movement of solidary agriculture have resulted from this same pressure to organise the own distribution. Besides, this practice has the advantage that the value added resulted from direct distribution to end consumers benefits the farm. However, as mentioned in the previous chapter, experience has shown that the complex development of a farm often leads to competence and time overstress for many farm managers. And this creates a situation that is problematic on various levels. Commercialisation takes quite a lot of time that should actually be used in the production process. Farm shops and delivery services are gradually turning into the main source of income. and production is being neglected. Farm shops are becoming retail stores in an agricultural environment. In many cases, the products are purchased in wholesale stores and no longer originate from the own production. This is the reason why Regionalwert AG follows the path of associative value-added chain, which consists of individual businesses with clearly defined tasks and responsibilities.

### **3.9 No single farm solution**

Regionalwert AG is not a concept for financing a single farm or a single business, because in that case the effort required to set-up and to manage the company is too high. If an entrepreneur wants to finance his business by means of private capital from clients and friends, there are simpler and more economic company legal models that allow to achieve this. Participatory certificates with return in natural products are a common form. However, it must be kept in mind that these models are also subject to the legal regulations of the market economy, that they are relatively strongly controlled by the Federal Financial Supervisory Authority and that they are compelled to act in compliance to the legal requirements.

### **3.10 Promotion of practical cooperation**

Cooperation among independent businesses within the Regionalwert AG network is not automatic and it should be coordinated by an assigned network manager. First of all, each and every member should have a sense and an understanding of the network as a whole. The organic store cannot exist without the wholesale store, the wholesale store needs the producers and the processors of food produce because without them it cannot function. Each step is linked-up to the others, no matter what position each individual operation holds. Because each operation normally has its own place in the value-added chain and cannot personally and

directly experience the other steps of the chain, it needs a conscious effort in order to appreciate and respect the work value of the next step and of the step thereafter. This is not meant only from an ethical, but also from a very practical perspective. A good analogy is an orchestra, which is made up of many musicians that have to play together.

If the only consideration is to get the best price for the own purchases without taking into account the economic situation of partners, then such a network does not make any sense. It becomes relevant to work together only when every partner is aware of the social and ecological practices of each operation in the chain and of its financial conditions. Knowledge about the situation of the other partners increases the responsibility for the own practice. This doesn't imply that competition is ruled out and that every price that is offered has to be accepted, but rather that every partner is supported in the process of improving his own operation, and that the network as a whole faces competition. Together with mutual openness and transparency, there has to be a disclosure of price calculation and availability of annual reports. If there is no transparency towards the network partners, a partial and distorted view of reality might emerge. When a gap between partners becomes obvious through the open disclosure of figures, it can be discussed whether a balance could be found or whether the business should be improved.

Given the large variety of relations within a regional network with numerous enterprises, the load of communication with every one of the partners is too high for an individual entrepreneur, and a source of support has to be found. However, once there is awareness of the whole and of the commitments among network partners, it becomes necessary to intensify the steady flow of goods among the network members. Usually it is the wholesale trader that ensures balance within the value-added chain and ensures transportation of goods and produce from A to B. However, there are many commodities, capital goods and services that cannot be acquired by the whole sale trader, such as knowledge, energy, fertilizers and seeds. Regionalwert AG can and must provide support, and it has to play a connecting role by organising the cooperation within the network.

Besides the positive whole economic effects that are triggered through the synergy effects within the network, there are also psychological benefits. The individual entrepreneurs don't stand alone with their needs and worries. Regular meetings are scheduled among managers from the entire value-added chain, where communication exchanges occur among actors from each individual stage.

Among the members of the value-added chain there are many enterprises and activities that are connected to the foodstuff sector, ranging from primary production over a large number of services to processing and commercialisation.

### **3.11 Entrepreneurs with a face**

An important conceptual element of Regionalwert AG is the visibility of each individual entrepreneur and of each enterprise within the value-added chain. Every business and its people, independent of whether they work in agriculture, processing or retail, have to be recognized as individuals. This is a counter principle to the classical practice, in which farmers disappear behind a retail brand or a product brand. The people that worked for every apple, every cereal bar, every piece of cheese and every bottle of wine have to be visible for the consumers. This increases not only the motivation of producers by acknowledging them as human beings, it also grants food produce a new, different and better quality.

### **3.12 Capital from the region for the region**

Regionalwert AG offers an opportunity to all individuals, companies and foundations that want to invest well their financial capital in their own region on the basis of socially and ecologically acceptable criteria. Every investor can monitor where the money is invested, who works for it and under what conditions. Meaning, purpose and impact of investment are not limited to financial return only; rather they are made up of several elements:

- First and foremost stand the entrepreneurs, who work with the money. Without them, the money would be invested somewhere else and could have a worse social and ecological impact. They shouldn't be seen as petitioners; rather it is thanks to their initiative that something meaningful is being done with that money. They should be supported financially for their courage to venture as entrepreneurs in an important and difficult sector, and to take on the risks. They are daring people that stand up with all their efforts for the ecological production of foods. In other words, one deals with people and not with machines. This is a matter of course, but experience has often shown that the personal interaction in the world of everyday business is the one that falls by the wayside and that money becomes the means to exercise one's power.
- The entrepreneur must understand that the shareholder, who has invested his money, allows him to be active, to implement his ideas, to create work places, to train apprentices, and to realize his ideas and vision. It is through this mutual appreciation that a fruitful economy can develop. In order to see what was actually achieved from the discussions held and from the promises made, an extended report is produced annually to include financial and social-ecological results.
- From a regional economic perspective, it is reasonable to invest in the ecological regional economy and in that way to invest in transparency, rather than in the anonymous capital market.
- From a regional policy perspective, it is reasonable to financially support entrepreneurship in rural areas that can make the environment more diverse and more attractive.

### **3.13 Mobilization of entrepreneurial energies**

Entrepreneurial self-dependence is a good way to achieve individual fulfilment not only from an economic, but also from a social point of view. For many reasons an entrepreneurial activity, with its many and everyday relations, is the best way to train and implement one's ethical individualism. The economic interaction with business partners and clients provides a constant opportunity for a moral way of doing business and for interacting with other people. The process of becoming an entrepreneur, of taking on responsibility and being confident in implementing one's ideas in the socio-economical overall context is a building stone and an individual contribution to a successful way of shaping the future of our society.

A variety of entrepreneurial activities makes a society – whether it is regional or global – colourful, lively and, most of all, stable. This is a fact that Regionalwert AG wants to support and to promote specifically for the regional ecologic food sector.

Financial capital is needed for every company set-up and for its growth. In some cases the amount required is rather limited, but in the case of agriculture it is comparatively high. Regionalwert AG organises this financial capital from people from the region and distributes it to the entrepreneurs on basis of its own criteria. It doesn't just give the money away; instead, it engages actively in the practical implementation of the entrepreneurial idea of someone, who has the courage and the will to set-up a new business or to take over an existing one. As a matter of fact, there are people that make the capital available to other people in order to allow them to be entrepreneurial. Regionalwert AG is only the middle man and the administrator of the invested capital. Success stories are a source of inspiration for others, often for young people, to realize their ideas. In this way, Regionalwert AG enables a culture of opportunities, the most important effect of which is the mobilisation of entrepreneurial skills for achieving a successful social cooperation. Through this aim, Regionalwert AG is contrary to the existing reality within the food sector, namely that of merciless accumulation of financial capital and market control in the hands of a few companies.

Nevertheless, there is no entrepreneur that just has all the necessary skills to manage a company. Before deciding whether to invest, the executive staff of Regionalwert AG has to proof if the idea is realistic and if the entrepreneur is actually able to implement it.

### **3.14 Circular argument for regional economy**

The aim of Regionalwert AG is to set up a regional cluster of enterprises that can make a difference. Regionalwert AG shares the profits and losses of each of the value-added chain enterprises. Realized profits and losses are distributed among the shareholders according to the individual number of shares. The profits and losses of all of the shareholdings held by Regionalwert AG in the various operations have an annual flow. If there is financial surplus left after Regionalwert AG has covered its own costs, it is then distributed among the stakeholders, most of which are from the region, or it is reinvested in the enterprises. In this manner,

Regionalwert AG closes the regional economic circle into a whole, contrary to the current practice, where agricultural production means are provided by global companies, and the processing and commercialization are left to large enterprises. Each step of the value-added chain, which is not located in the region, drains off regional financial value.

Ideally, if all steps of the value-added chain are represented in the network and if all shareholders live in the region, the total value of natural, social and financial assets should increase constantly, and the price of food products should decline through the higher efficiency within the enterprise network. To accomplish this, there is a basic condition that the primary agriculture remains a constant and essential component of the value-added chain because it is the only economic sector that reports a positive material and energy balance. Agriculture “works” with plants, which turn the energy from the sun into substance. All other economic activities consume the substance. Admittedly, this is an experimental plan game; nevertheless, the creation of a regional economic circle within an organically cooperating unit should be the aim of a Regionalwert AG network.

### **3.16 Impact assessment – a new accounting method**

A significant challenge in the process of achieving regional economic profitability is the method for abstraction – namely how to produce a documentation that reflects the processes that have taken place and their results. Existing instruments of conventional accounting and financial statements are too limited in scope. They describe the financial situation of a single company and don't show the connections and the performances among the various operations along the value-added chain. When one of the companies is profitable, it usually enjoys alone the situation, without knowing whether the profit was realized at the expense of another business along the chain. The other way around, another business that has incurred losses is downgraded, without taking into account the benefit it might have brought to another company and to the whole network. Besides, there are always social and ecological profits and losses that are not at all reflected in the accounting.

In order to enable a successful regional economy, it is necessary to design and to use new accounting instruments. They should be able to provide an overall and objective answer to the question of Regionalwert AG share profit. The shareholder should also have the certainty that his financial dividends have not been realized at the expense of nature or society. Otherwise they are phantom earnings with costs that will sooner or later be incurred. For an extensive overview of the business outcome, it is necessary to introduce a mean for the measuring the impact assessment of an investment in Regionalwert AG. Such a tool would make possible to assess whether the initial business development plan has been fulfilled.

### **3.20 Criteria of participation**

At the annual meeting in 2009, the shareholders of Regionalwert AG decided on the criteria for the selection of network participants. They are part of every participation agreement and they are normally included in the preamble of the shareholders' agreement.

They are as follows:

#### ***Ecological management***

The agricultural enterprises, in which Regionalwert AG (RWAG) takes holdings, have to operate and to be recognized as ecological enterprises according to the EU regulation (EG) Nr. 834/2007 and to the implementing regulation (EG) Nr. 889/2008. It is also possible that RWAG takes holdings in enterprises that are managed in a conventional manner; however, the enterprise managers have to present a timeline for the conversion to ecological agriculture. At the latest four years after the conclusion of the contract, the operation has to be converted to ecological farming and has to be licensed as an ecological farm by an accredited certification body. Regionalwert AG wishes that the farming operation joins an association of ecological farming; the choice of the association is left to leaseholder or to the farm manager.

Besides compliance to the regulations concerning ecological farming, RWAG sets a high value on maintaining a diversified cultural landscape, on the usage of ecologically grown vegetables, fruits and crops obtained through open-pollination, on active processes of soil fertilization and animal fertility, on maintaining and improving biodiversity and on the usage of seeds, breeding material, energy and fertilizer with regional origin.

#### ***Social aspects***

Also from a social perspective, there are management practices that RWAG considers important. Young people should be given the opportunity to train in the respective branches. Socially disadvantaged people should be given the opportunity to integrate work-wise through suitable work places. The number of qualified personnel should be significantly higher than the number of seasonal workers. Another important element of consideration for a sustainable operation is the quality of work. To achieve this, businesses should be developed in a diverse manner in order to provide multifaceted, interesting and instructive activities. A fair remuneration of employers and employees should be the basis of cooperation.

#### ***Economy***

A good company practice in the sense of a solid management structure is a pre-condition for Regionalwert AG before taking a holding in a company. Regionalwert AG wants to evaluate the companies in which it takes a holding as well as the people that are selected as business managers or leaseholders according to their business qualifications in their specific areas of work. Specific training is required. In case the person has not completed a training, references from previous years of experience are an equivalent criterion of evaluation.

### ***Regional networking***

Partner companies within Regionalwert AG recognize in their cooperation a real chance to increase efficiency and to obtain synergy effects at economic, social and ecological levels. These opportunities should be used by all the network members. The number of produce and services offered by the value-added chain of RWAG should constantly increase in every network business, insofar they match the production range of that particular business. It is desired that member businesses respond to the invitation of the RWAG to participate in a company forum, which is organized every other month.

### ***Transparency and reporting requirements***

Every enterprise that joins RWAG commits itself to open disclosure and transparency towards RWAG and all other members of the network. Annual reporting is mandatory. It contains the half-yearly financial reports as well as the annual financial statement. In addition, there should be an ecological and social report on the basis of the sustainability indicators provided by RWAG. These indicators allow RWAG to guarantee and to point out the sustainability of the regional food supply. They include social, ecological and regional economic areas.

RWAG makes all this information available to the shareholders through the annual report. This is an important communication strategy between shareholders and the enterprises to report on a socially and ecologically sound economy. The organization of shareholders meetings on the premises of the network enterprises is also a method of transparency.

Occurring financial and operational difficulties should be reported to RWAG immediately.

### ***Network partners***

When relevant, the same criteria apply for all other companies that are not directly connected to the agricultural sector, but are member enterprises of RWAG and belong to the value-added chain. All other economic sectors that are members of the RWAG commit themselves to support the agricultural enterprises within the network in their effort to fulfil the ecological, social and economical criteria.

### ***Contractual compliance***

Through the contract, a partner enterprise within Regionalwert AG binds itself consciously to the criteria defined above. It identifies the networking with RWAG and the other enterprises to provide an actual opportunity for the future. The criteria of participation are part of the lease or of the share participation agreement.

### **3.21 The meaning of region**

How far away does a region go, what is a meaningful distance for a shareholder participation? This is a question that Regionalwert AG faces very often. A lot has been said about the meaning of region. The initiators of Regionalwert AG consider the following criteria to be mandatory:

- Practical cooperation among member enterprises has to be possible in order to allow for synergy effects within the network. This limits the regional distance down to a relevant geographical size.
- It is also advisable to take into account specific regional factors. Often these are not limited by political borders; instead they are determined by cultural and geographical prerequisites.
- It is important for weaker regions to be linked with stronger regions. For this reason, Regionalwert AG Freiburg invests not only in the Upper-Rhine area but also in the Black Forest in order to allow one region to interact with the other. In a Regionalwert AG network there should be included a larger city with a significant financial potential because for structurally weak regions, such as Eifel, Hunsrück or the Bavarian Forest, it is surely difficult to find a sufficient number of shareholders to set-up a Regionalwert AG.
- It is fundamental to bring financial capital from the big cities into the regions in order to give small and medium size enterprises a chance to continue operations or to be set-up. Through these enterprises rural regions could regain their attractiveness. City dwellers benefit from active and therefore diversified local rural areas, where they expect to find choices for recreation and for the production of their food produce. The area comprised by a Regionalwert AG should therefore be defined on an individual basis.

### **3.22 Citizens and enterprises as investors with voting rights**

Investment in Regionalwert AG is linked to voting rights. This is the reason why investors – the shareholders – are the actual owners. They decide upon the future path of Regionalwert AG. Voting rights are based on the size of the financial investment. However, the articles of association of Regionalwert AG stipulate that the voting rights of each individual shareholder are to be limited to a maximum of 20% of the share capital in order to avoid giving an investor an absolute majority and, in doing so, to undermine the aim of the organization to support a participatory regional development. An investment made with the purpose to dominate alone Regionalwert AG is meaningless. For an innovative shareholder structure, a plurality of votes is essential. Without the limit on voting rights it would be impossible to coordinate between shareholders and votes during the general meeting. Nevertheless, the larger the group of shareholders is, the more diverse the opinions they share. The general shareholder meeting of Regionalwert AG should reflect a social diversity. A plurality of opinions is not a disadvantage as long as opinions are expressed in a coherent manner and don't hinder the decision making process.

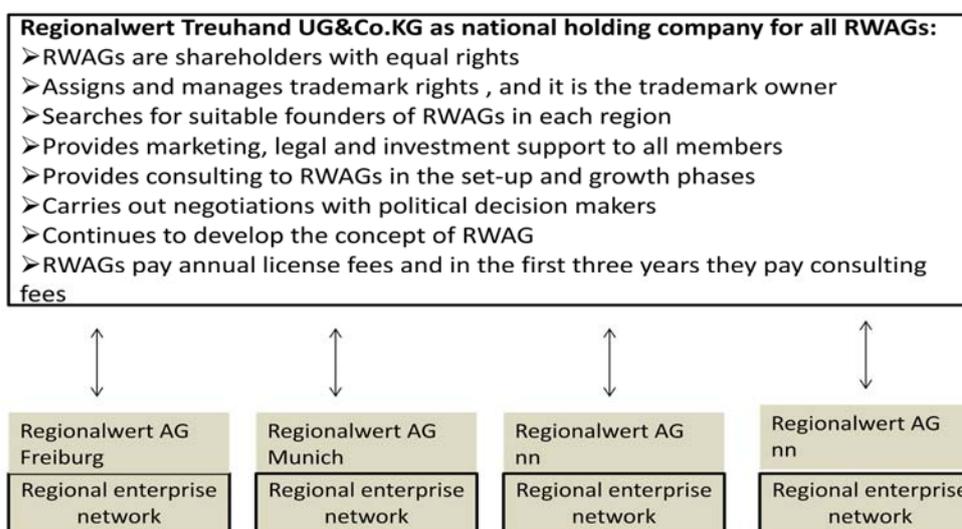
### 3.23 No protectionism

Even though it may appear that Regionalwert AG is built on protectionism, this isn't the case. An investor decides to invest in Regionalwert AG on the basis of a prospectus and can re-sell his shares. Partner enterprises in the network are also free to make their own operational decisions. They have to reach a common agreement together with Regionalwert AG, but only within the limits of the association agreement. There is no law that stipulates how partners have to handle. Alone the economic rationale should be the guiding principle of cooperation on the basis of a broader economic understanding and with regard to existing contracts. The required reporting on financial and social-economic results is not a legally foreseen form of protection, but rather an attribute of the free market economy, which, according to its theory, functions when all participants have access to the complete information.

### 3.26 Regionalwert AG in other regions

Since the creation of Regionalwert AG in Freiburg in 2006, there have been inquiries about the concept from other regions of Germany and from other European countries. The founders of Regionalwert AG have made the concept transferable by setting-up a national holding company under the name of Regionalwert Treuhand UG&CO.KG. The main principle of co-determination continues under this legal corporate form where all newly-created Regionalwert AGs contribute with capital share and become shareholders in the Regionalwert Treuhand UG&CO.KG. In this way, the new Regionalwert AGs acquire a voting right in the national holding company and the right to use the trade mark. The model can be seen as an atypical form of franchise, where the franchisee is also a shareholder in the franchisor company and can decide on the long-term development of the company.

#### Regionalwert Treuhand UG&Co.KG



### **3.27 Each Regionalwert AG is an individual unit**

Provided that sooner or later there will be more Regionalwert AGs, each and every one will still remain an individual and independent unit, because what it has in common with the other units is the model of its set-up and its objective, as they are expressed in the trademark of Regionalwert AG. Whereas externally the Regionalwert AG units will share common characteristics, internally they will differ from one another through the unique build-up of shareholders, board of directors, management and partner enterprises, which – based on their regional, cultural and social factors – will make the most relevant decisions to the benefit of the whole. Also, it is not mandatory that a Regionalwert AG is directly related to the field of agriculture from the very beginning; however, sooner or later, agriculture should become a fixed component of the value-added chain, not because it is foreseen in the charter of Regionalwert AG, but because otherwise the network is not economically meaningful.

## **4 Regionalwert AG – Practicalities**

### **4.6 Financial return**

The shareholders of Regionalwert AG hold the assumption that the current form of food economy will sooner or later no longer be sustainable and that the costs of industrialized agriculture – and consequently those of food products – will go up. As a result, the regional, small size agriculture will regain financial and economical relevance. The assumption that the regional economy is at the dawn of a new age is further supported by the fact that consumers are asking for higher quality of food products and that big producers are facing increasing costs.

Shareholders provide financial means to ecological agriculture enterprises and participation is generally based on profit and losses-sharing. Return is consequently distributed only when profits occur. Losses also have to be absorbed to a certain degree. Distribution of profits and losses is share-based. Exiting and expected increases in value are the reasons why many choose to invest in Regionalwert AG, provided that the money is placed in real assets and in capacity building. The value of money increases through higher qualification and better soil fertility.

### **4.7 Socio-ecological return**

From the beginning, Regionalwert AG has considered social and ecological activities of enterprises to be returns on investment – namely, a form of dividends. The articles of association stipulate that these activities have to be included in the annual statement and have to be presented in the report to the shareholders.

For this purpose, Regionalwert AG Freiburg has designed so-called indicators and since 2008 it has been delivering to the shareholders an annual socio-ecological report, which describes the development of the organization from the social and ecological perspectives. A financial conversion of the social and ecological value-added does not yet exist, although it would be necessary. Until now the shareholders of Regionalwert AG have only been able to consider the qualitative and not the financial value of the socio-ecological results. Nevertheless, in comparison to the classical economy, Regionalwert AG has been innovative in the way, in which it details the social and ecological results of the invested capital. The financial conversion is only a matter of time, considering that social and ecological damages are becoming so relevant to the point that their impact on capital will need to be reflected in financial statements. An important step in the assessment has been the continuing objectification through indicators.

### **4.8 Indicators**

Indicators help represent complex economical, social and ecological factors and their interdependencies. They are generally called “points of reference” and provide a central element of evaluation. With the help of the sustainability indicators defined in this project, it will be possible to render the current situation of the member enterprises of Regionalwert AG and their development to a social, ecological and regional value-added chain.

The conceptual and methodical basis for the indicators provides an analysis of:

- social opinion forming processes within this sector,
- scientific projects that reflect the sustainability efforts of agricultural enterprises,
- criteria, which are used by small and medium size enterprises to report on ecological, social and sustainability factors,
- criteria, which are used to design consumer oriented surveys and “Socially Responsible Investment Research”,
- international and national conventions, standards and directives concerning responsible corporate behaviour.

#### **4.8.1 Requirements of sustainability indicators**

In order to ensure that the sustainability indicators fulfil their purpose – the measurement and the representation of social, ecological and regional responsibility of the Regionalwert AG member enterprises – they need to meet various requirements:

- Relevance for the substance matter,
- Objectivity regarding the conceptual accuracy of the data,
- Survey feasibility, particularly for small-size agricultural enterprises,
- Compatibility of data collection from various agricultural branches and processing stages,
- Feasibility of data collection at a reasonable expense,
- Ability to capture and to reflect trends characterizing particularly small-size agricultural enterprises,
- Ability to communicate the results in a comprehensible manner.

#### **4.8.2 Classification of sustainability indicators**

The sustainability indicators designed by Regionalwert AG address the following aspects:

- a) social
- b) ecological
- c) regional economy

All three categories contain indicators, which are relevant for the performance assessment of agricultural enterprises. They are subdivided in:

a) Social

- employment structure
- remuneration
- fluctuation
- quality of work

b) Ecological

- soil fertility
- bio-diversity
- usage of organic regulation
- resource consumption
- organic surface

c) Regional economy

- value-added factor
- value-added in the region
- regional engagement
- dialogue within the value added chain

These criteria provide the enterprises of Regionalwert AG with the basis for their annual reporting. The results of these individual reports are summarised in the annual report of Regionalwert AG to the shareholders. In this way, the shareholder can see what has been the social and ecological impact of the invested capital as reported by the various enterprises.

## **6 Practical shareholding**

As a rule of thumb, Regionalwert AG does not initiate the set-up of an ecological agricultural enterprise, but it becomes active when an entrepreneur comes up with a business idea. If the idea fits into the model, then Regionalwert AG supports it financially and through consulting services.

Regionalwert AG also supports existing businesses, which, for various reasons, might want to change their ownership and capital structure, or to improve their chances by networking with other enterprises.

One of the main objectives of Regionalwert AG is to finance agricultural enterprises with non-family succession.

### **6.1 Farm succession**

In Germany farms are regularly inherited and not acquired through purchasing. In other countries, such as Denmark, the situation is different and even successors from within the family need to gather the capital in order to buy the farm. The money obtained from selling the farm helps the parents make retirement arrangements. The other heirs receive their share from the proceeds of the selling price. In Germany, where farms are regularly inherited, the other heirs have to be compensated financially by those, who have inherited the farm.

This model makes non-family succession difficult. In the first place, the selling of agricultural property is stigmatised and seen as a serious blunder. In the second place, parents often postpone the decision with the hope that one of the children will take over the farm.

For that reason, farm succession often goes this way:

A family has owned an agricultural farm for generations. Children are slowly growing up and the question of succession is open. The parents still have some fifteen years left until retirement. None of the children wants to work in agriculture, although the parents wish that farm will continue to exist. The children learn other professions and begin to work. The subject will come up every now and then at family gatherings. To avoid disappointing the parents, a son or a daughter leaves open the decision to take over the farm. Care of the elderly parents is usually tightly connected to this subject. None of the children wants that the parents have to leave the place where they have spent their entire life. Generally, once the parents have reached the age of fifty-five, not much is invested anylonger because nobody knows if the farm will go on and if the investment will amortise. The decision will be delayed until the father reaches retirement at the age of sixty-five. At the point the parents have to make a decision and to hand over the farm, otherwise they will not receive any retirement money.

By that time children have long been established in their careers and don't want to return to agriculture. In this case in Germany, the land acreages are usually leased to farmers from the same village or from a neighbouring village, and the farm is reduced to a small area that is left for the parents. The farm buildings are turned into living quarters for the parents and for whoever takes care of them. There are no further investments in the farm, or a very limited investment in a part-time farming that will be carried on by the parents as a sideline activity.

In case one of the descendents agrees to take over on a full-time basis, then the farm is kept. Many times though it is still not clear as to why he or she has made this decision. It is often the case that it has been caused by a feeling of duty towards the parents and the family rather than a personal choice of becoming a farmer and if so, at a later point – at the latest after the death of the parents – he or she acknowledges this fact.

This shows is that it is not easy for a Regionalwert AG or for a non-family entrepreneur to gain access to fully operational farms. In such cases, by the time the parents have reached the retirement age, the farm is in a rundown state because no investment has been made in the past ten years of operation. The acreage is often leased and the farm consists of a few left buildings and a small piece of land. Hopefully the future will bring a change in attitude, and the farms as well as the notion of a non-family succession will no longer be rarities.

## **6.2 Non-family agricultural start-ups**

There are quite a few young people that wish to make a profession in agriculture. Those, who continue to have the wish past the teenage years, eventually sign up for a training or for studies in the field. Once the education is completed, they start looking for a suitable enterprise. Up to half of the graduates from some universities and colleges want to make an independent living in agriculture. But the search is many times fruitless because non-family farm succession is not yet a common practice. Even if the young people might eventually find a farm where there is no descendent, there are still many questions regarding the transfer of ownership that need to be tackled. This often reoccurring situation is confirmed by Christian Vieth, the initiator of [hofgruender.de](http://hofgruender.de), a platform intended for non-family farm succession. There are two main questions that come up in the process of transferring the farm: What happens to the descendents when non-family members move to the farm? How can the person that wants to purchase the farm acquire the capital needed? These and many other questions can be answered with the help of Regionalwert AG. The entrepreneurs that have their own capital receive an additional financial support from Regionalwert AG that allows them to purchase the farm. This can be a gradual process when the previous owners might want to continue to be involved for a while in the management of the farm. The legal form of KG<sup>1</sup> makes it possible for the previous and for the new owners to work together for a period of transition and allows the takeover from the new owners to occur as contractually agreed. The changeover within the

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<sup>1</sup> A Kommanditgesellschaft (abbreviated "KG") is the German name for a limited partnership business entity and it is used in German, Austrian and some other European legal systems.

limited partnership form allows for a gradual takeover of the company shares. In this manner, the previous and the new owners can work together for a while both as managers as well as shareholders. It is even possible that the descendants continue to maintain shareholder rights and in this way to remain connected to the farm. If this scenario occurs, it is important to consider giving sufficient leeway to the young entrepreneurs. In such cases, Regionalwert AG has an additional function by taking on the mediator role between the parties. An amiable transfer of ownership from descendants to non-family entrepreneurs requires a good amount of mutual consideration.

### **6.3 Entrepreneurial development and marketing**

Similarly to agricultural entrepreneurs, entrepreneurs in the related value-added chain fields also face difficulties in gathering the capital needed for setting-up a new enterprise or for taking over an existing business. Depending on each sector, a certain amount of start-up capital is needed. Regionalwert AG is equally willing to provide capital to such enterprises as long as they match the organizational purpose. In this regard, particularly important are the organic markets (whole and retail sale stores). There are also numerous opportunities to start-up an enterprise in the food processing sector. With such enterprises, Regionalwert AG takes a similar approach. Namely, there has to be first an entrepreneur with a solid idea before an enterprise is set-up. The managers of Regionalwert AG check the idea, might give some suggestions and provide the capital once the project looks reasonable and feasible.

### **6.9 Difficult situations**

As a holding company that provides financial support to entrepreneurs, Regionalwert AG is confronted with economic and other kinds of difficulties that the enterprises within the network might encounter. In such cases, it tries to play a stabilizing and supporting role. Every such case has to be followed by an analysis that tries to identify the causes of the problem, and if and how they could be solved.

First it is necessary to look at the entrepreneurial skills of the management. This analysis should go beyond financial figures. Those responsible within Regionalwert AG need to discuss directly with the entrepreneurs in order to identify the root of the problem. Often times such situations are difficult to handle because it is hard to maintain an objective stand and because partners begin to accuse one another. In such situations, it helps when the participation agreements are carefully drawn up and include clauses that address the handling of crisis situations. Nevertheless it remains a challenge to deal with such cases.

It should also be clear to Regionalwert AG shareholders as well as to the staff that some enterprises might fail and that in that case the capital is lost. For this reason, the capital invested in Regionalwert AG should be considered risk capital.

## **6.10 Handling crisis situations**

Regionalwert AG invests in a sector that has a good share of economic risks. This should to be clearly stated in the share prospectus. The prospectus must detail possible risks ranging from loss of revenue within the agricultural sector caused by severe weather conditions, pest infestation and market risks to social problems, because such issues affect the financial profitability of Regionalwert AG. The prospectus should specify that Regionalwert AG invests primarily in entrepreneurial projects, which, despite careful evaluation, might not turn into successful enterprises. This is the reason why the management of Regionalwert AG is expected to create a portfolio of investments that should reflect both a regional as well as an enterprise profile diversity.

Under such circumstances, the purchase of a Regionalwert AG share could hold a higher level of risk than other forms of investment. However, at the same time it should be taken into account that when investments in regional agricultural and food economy will not follow the model proposed by Regionalwert AG, a number of risks could arise with a significantly negative impact for the future. Such risks might be: over-regional dependence on food supply, dependence on seed suppliers, lack of transparency in food production and commercialization. Such risks are affecting every individual consumer and not only the society in general. For this reason, every investment should be preceded by a careful risk assessment.

## **6.11 Timeline for conclusion of participation agreements**

Serious consideration should be paid to the risks of a prematurely concluded contract of participation. Sufficient time should be allowed for clarifying the expectations on both sides. Regionalwert AG needs to well define the terms of its participation in another enterprise in order to avoid later misunderstandings. Half a year is regularly needed between the first discussion and the signature of the contract. In between, Regionalwert AG needs to go through a number of formal steps. The request of participation has to be checked against the existing criteria: Is the enterprise situated within the defined region? Does its profile fit into the portfolio of regionally ecologic food economy and does it fit the profile of Regionalwert AG? How much capital is needed and is Regionalwert AG in the position to make this capital available?

Once the answers to these questions are found, the management can come to a conclusion. This could be a confirmation of participation or a rejection of the project. A detailed evaluation of the enterprise and of the project idea can only follow after this stage.

After the preliminary conclusions have been reached, the management should inform the supervisory board that participation in a new enterprise is being considered and provide the board members with sufficient information about the implications of the potential involvement. The benefit of this approach is that the management can evaluate the opinion and the position of the supervisory board in regard to the project at an early point.

If the careful evaluation of the project leads to a positive result, then the management drafts the contract of participation together with the entrepreneurs, and they concluded it. The agreement reached by the management board should be approved by the supervisory board before it comes into force. Only upon approval of the supervisory board, the management board is entitled to make the financial transfer. When the project demands the creation of a new enterprise, other follow-up steps are required. At the very least, the set-up of a company with limited liability has to be registered by the notary in the Commercial Registry. All these procedures require time and patience.

### **6.12 Concerns of the entrepreneur**

The agricultural entrepreneur, like every other kind of entrepreneur, is confronted with a number of psychological issues when considering the option of sharing the holding of the enterprise with Regionalwert AG. There is always the fear that “his” enterprise will fall under the control and authority of the stronger partner. The effect is even more powerful when it is a joint stock company, which has a weak reputation through the nature of its legal entity. It is the duty of the Regionalwert AG management to put the concerns into perspective and to explain that an enterprise is constantly in some form of dependency with other companies, and that partnerships have their advantages. According to the business purpose of Regionalwert AG, the partnership implies providing financial support to the other enterprise. When an enterprise needs external financing, it inevitably slides into relationships of dependency. An entrepreneur that finances his company through a bank loan is constrained to act according to the rules of the bank and of the banking legislation. Especially in agriculture, where the balance sheet often reflects high to very high external capital shares, it is not possible to discuss about autonomy.

### **6.13 Financial return on investment**

As already mentioned, financial return in agriculture is at a difficult stage. The amount of capital required is high and the return on investment is low. Through the strategy of the value-added chain investment, Regionalwert AG tries to balance this situation.

Another way to create the balance is to purchase shares in already established and profitable enterprises. Sole participation in new businesses leads automatically to delayed returns on investment.

Every investor should be aware of the fact that his investment in agriculture yields profits that are additional to the financial return. To begin with, the social and ecological value chain in itself should be counted as profit. This principle is not easy to understand and it often requires intensive communication between partner enterprises and the management of Regionalwert AG on one side, and members of the supervisory board and shareholders on the other side.

Nevertheless, the aim of Regionalwert AG remains to obtain sooner or later a financial positive result. How fast this can be achieved depends on the enterprises in which the capital is first invested.

#### **6.14 Enterprise financing growth**

The enterprises within Regionalwert AG usually need further capital for growth purposes. In such cases, the enterprise manager or the head of operations approaches the shareholder Regionalwert AG and presents the business development plan for the next few years. The management board of Regionalwert AG decides together with the advisory board whether the needed capital should be provided by Regionalwert AG, or whether it should be found elsewhere. In general, Regionalwert AG is interested in the growth of its partner enterprises because every developmental step means that another piece of land will be cultivated in an ecological manner, or that there is an increase in the share of organic food products.

Growth is regularly supported either through an increase in the shareholder's capital or through a shareholder loan. The shareholder loan shouldn't be mistaken for a credit that doesn't require a shareholder relation.

#### **6.15 Long-lasting partnership**

Regionalwert AG provides financial support to its partner enterprises on a long-term basis and not only at "critical times". We have seen how the attitude of the enterprises towards Regionalwert AG can change throughout the relationship. For those in need of support – entrepreneurs or owners of established businesses – Regionalwert AG is an outstanding partner. When times change to the better and positive results are achieved – with the help of Regionalwert AG, which has absorbed a part of the losses – it becomes a less desired partner. Sharing the losses is generally better welcome than sharing the profit. For this reason, it is important that upon signing the contract, every entrepreneur has to understand that Regionalwert AG will be a long-term partner that depends upon the financial success of the network enterprises.

## **9 Outlook**

The concept of Regionalwert AG needs further development. The initiators were aware that they didn't have from the beginning a ready to go regional economic concept, but an instrument meant to be used and constantly re-adjusted in order to create the basis for the visibility and future of a sustainable regional economy. Every period of time and every region have their own particular characteristics. It would be unwise to undermine the sense of autonomy and responsibility of network members through a rigid system. The instrument created by Regionalwert AG is an archetypal model. The actual process takes place in the everyday business, in meetings of the management and of the advisory board, in shareholder meetings, through exchanges among partner enterprises and within the individual business units. The model is intended to allow responsible entrepreneurs in every region and at any time to make wise economic decisions. The benchmark is the result of ongoing discussions among the participants. To this end, the concept should be further developed through consensus among all participants. It is reasonable to expect that it will never have a definitive form, because though its completion it would actually lose its purpose.

In the case of Regionalwert AG, one also cannot discuss about a complete business model that can foresee from the beginning the capital requirements, timeline for dividend distribution and the number of partner enterprises needed in order to establish the local food sovereignty. Its uneven development resembles that of an organic structure. Its nodes lead to new brunches that build their own offshoots, which further expand following the same archetype.

### **9.1 Transfer to other regions**

The regional transfer of the instrument created by Regionalwert AG has begun and will continue to go on. Once the trademark is protected, the initiators of Regionalwert AG in Freiburg hope that other regions will adopt the instrument and the name, and that they will set-up an autonomous Regionalwert AG with its specific regional characteristics.

For this reason, the management of Regionalwert AG Freiburg has set-up a holding company named Regionalwert Treuhand UG&CO.KG. Every Regionalwert AG unit has to provide capital contribution to the parent company and receives in exchange the know-how and the rights to use the trademark.

The management of Regionalwert Treuhand is responsible for finding suitable founders and for assessing whether their existing qualifications are sufficient to allow a proper management of a new Regionalwert AG unit. All managers of the Regionalwert AG units meet at least once a year at the shareholder meeting of Regionalwert Treuhand UG&CO.KG, where the topics discussed are of relevance to all participants.

The fundamental criteria of Regionalwert AG require 100% unanimity before being included in the resolution and they can only be altered upon approval of all Regionalwert AG units. This

procedure allows for flexibility of the core concept, but it protects it from majority groups and power games.

## **9.2 Municipalities as partners**

Many municipalities own land or entire farms, which they let on a lease. The leasing administration is often time- and resource-consuming and the municipality is required to have the right expertise to negotiate with the managers. Regionalwert AG has the necessary skills to take over the administration of these properties from the municipalities, either by purchasing the land or entire farms, or by taking the buildings as contribution into the local Regionalwert AG unit and by providing shares in exchange to the municipality. The municipality becomes a shareholder, and, as such, it can contribute to the development of the enterprise without having to put in any additional effort.

## **9.3 The state as partner**

Federal and local governments as well as the EU allocate annually large amounts for regional development. The rules are set by politicians and the freedom to use the resources as needed at the local level is becoming more and more constrained. Nevertheless, it remains a political aim to stop the demographical change and its negative impact on rural areas. With the help of Regionalwert AG, the state can stimulate economical and entrepreneurial activities by using few, but target-oriented start-up investments. The result of this strategy is not a long lasting dependency on subsidies, but the development of well organised and autonomous regions, which engage in a lively and practical exchange with the large cities and which advance economically on their own means. Furthermore, the method used by Regionalwert AG to record social and ecological benefits is a potential option for the public sector to provide the agriculture with a monetary compensation for its services to the commons.

## **9.4 Cooperation with nature conservation**

In Germany there is a split between nature conservation and agriculture. The two of them are opposite to one another. The task of agriculture has always been to push nature back and to allow only a limited portion, which is now necessary for production purposes and earlier used to be necessary for survival. Nature conservation stands against this practice and represents the interests of nature. Ecological agriculture has tried from the beginning to protect nature and natural resources. Nevertheless, every kind of agriculture interferes with nature. Times and again, the political side has tried to produce food in specially built spaces that allow for high yields and to return large portions of land back to landscape and nature conservation areas. This approach leads to two laboratory situations – one for a systematically grown nature and the other for a highly technological food production. The founders of Regionalwert AG favour the

common path of agriculture and nature conservation. The method for the internalization of external effects provides the basis for the cooperation with nature conservation. The first step will be made once there will be a recognition and a financial compensation for the benefits provided by agricultural farms for the protection of the natural environment. To this purpose, Regionalwert AG can be the connecting link between the two sides and can try to create a balance of interests.

## **9.5 Foundations as investors**

In Germany there are a large number of foundations, which currently have a capital of approximately 100 Billion EUR and show a tendency to increase the volume. With very few exceptions, the financial assets are invested in the capital market, where they generate interest rate returns, on the basis of which the foundations fulfil their charitable purpose. Previously, little attention was paid as to where the money was invested and what impact it had; what mattered was the rate of return. In the last years, however, the ethical aspect of the investment has become more relevant and has led to the question: where and how should a foundation invest its capital, without causing ecological and social damages? The ecological agriculture makes a suitable investment target. Regionalwert AG provides an instrument, which enables foundations to make large investments in ecological agricultural and regional economy. As an intermediary structure, Regionalwert AG provides the professional support for the investment and builds together with the entrepreneurs and the residents of a region a value chain cluster. As most foundations are non-profit, there is no danger that large investors can privatise the profit generated by Regionalwert AG because non-profit entities are legally required to return the financial profits back to the community by means of their operating purpose. In this way, foundations can have multiple positive impacts. On one hand, directly through social-ecological investments, and on the other through the financial profit that is used to fulfil the charitable purpose of the foundation.

## **9.6 The concept of Regionalwert AG in international cooperation and development**

Regionalwert AG is not a model only for the well-developed countries; much more, it is the right instrument for international cooperation and development. Private and public organizations that operate in other countries, including third-world and developing countries, can use this instrument in order to raise awareness over the possibility of self-mobilization. Local food sovereignty has to be achieved in all regions of the world in order to meet the needs of the ever growing population. The core paradigm of self-mobilisation of entrepreneurial skills on the basis of regional cooperation and value-added chain can be transferred to every region of the world. The legal form of the organisation and the capital amount required vary from country to country and have to be evaluated and determined on-site. This model is also suitable for attracting development funds. The financial support would not be in the form of non-repayable grants, but of capital that remains preserved and helps develop the entrepreneurial potential.

## **9.7 Source of new ideas**

The whole Regionalwert AG initiative provides opportunities for reflection, for becoming active and involved in projects, for trying new things and breaking down with old models. It is a source of inspiration for ideas and activities, and an agency for regional economy. Many new things can emerge, such as new enterprises and jobs that haven't existed before. This initiative will enrich the professional landscape by creating new forms of activity, such as regional supplier, which will be a further development from the activity of farmer. The characteristic of these new professions will be a universal form of training. They will make a progression from the big picture into specific cases, from an overall understanding to individual skills and competences, instead of focusing only on the individual expertise.

New skills will be developed to meet the dimensions and the requirements of a specific region, instead of a fit-all package. Regionalwert AG has created an alternative that provides a new dimension to the food sector economy.

## **9.8 Growing network**

The network of enterprises in the regional ecologic agricultural and food sector will continue to grow and the number of enterprises requesting to be included in the network has been significantly increasing. Higher confidence in the model has led to higher interest for becoming a member of the network. This is a positive effect because there is a high potential for mutual networking. Many other enterprises could join in order to increase the synergy effect.

The greatest hesitation to participate has come from the farming business, although the need is high. One of the reasons is reluctance towards business forms other than the private enterprise. A limited partnership business is a new concept that hasn't been used in this form before.

## **9.9 New shareholders**

A growing number of enterprises in the network requires further capital support. This can be achieved by raising the number of shareholders and by increasing the capital contribution of the existing shareholders. For this reason, Regionalwert AG will ask at fixed intervals for new capital increases and will issue new shares.

## **9.10 Regionalwert AG as topic of research**

Regionalwert AG deals with a complex topic, which provides a generous material for many research fields. There are a number of open questions that need urgent clarification. Based on the fact that Regionalwert AG tackles matters of major current concern from economics, finances, social and ecological issues and the future of food supply, it receives a number of

inquiries from students looking for topics for Bachelor, Master or PhD thesis. In order to deal with the increasing number of inquiries, AGRONAUTEN, an independent research centre, was created. Its research is focused on regional development on a sustainable basis.

Questions from agriculture, processing, distribution, or from shareholders and consumers are framed in a certain research design and the answers are formulated at an academic level.