THROUGH THE VALUE CHAIN LENS

PARTNERSHIPS FOR GREEN GROWTH

Maya Forstater and Katherine Madden, October 2013

The 3rd Global Green Growth Forum (3GF) will take place in Copenhagen on 21-22 October 2013. The overall focus of the meeting will be on *"Improving Resource Efficiency in Global Value Chains".* This paper has been developed to provoke thinking and discussion on how a value chain lens can accelerate the search for scalable solutions reconciling economic growth with environmental limits.[*]

Global value chains and public-private partnerships, are two of the key transformative institutional innovations of our age. The growth of global value chains has radically altered how goods and services are produced, transforming the competitiveness of nations and accelerating poverty reduction, urbanisation and environmental damage at paces never seen before. [1] Partnerships have emerged as a pragmatic response to the environmental and social pressures thrown up by these developments.[2] There is now barely an issue of concern involving environment and development for which there is not a multi-sector partnership, and for many there are several; 1,382 partnership actions were registered at the Rio+20 Earth Summit, and more are in development.

THE QUEST FOR SCALE

The key purpose of 3GF is to stimulate a deliberate international thought process about the kinds of public- private collaborations that could catalyse green growth.[3] To succeed at this, partnerships must enable radically more environmentally efficient technologies and practices to reach the point on the innovation 'S curve' where they continue to grow to widespread adoption without additional intervention.[4] This means these partnerships, and specifically the solutions they promote must ultimately (and rapidly) meet one of three tests:

- **The solutions 'pay for themselves'** (though savings or creating new value) and manage to compete against current solutions and practices; or
- **The solutions gain a critical mass of support for enabling regulations and public policy**, while avoiding developing new rent-seeking relationships; or
- **The solutions are adopted by consumers,** either through changes in lifestyles or consumption patterns and willingness to pay.

The history of innovations, from the railways, to the internet to recycling shows that the pathway to widespread adoption has often been beset by barriers requiring government action to unlock markets. The barriers are familiar: market failures and collective action problems, high initial costs, fragmented and inconsistent information or lack of standards. However the formula to successfully overcoming them has not been standardised. Instead progress has been achieved through

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[*] *This paper has been written as an input to the 3GF 2013. It draws on insights from ongoing engagement with the conveners and participants of existing and emerging 3GF PPPs alongside broader learning from partnership experiences. The opinions expressed are those of the author and do not necessarily reflect the views of 3GF. A final version of this paper will be published after the Forum, drawing on insights and inputs from the meeting. Comments are welcome and by email or in discussion with the authors at 3GF 2013.*

meandering pathways, punctuated by breakthroughs of policy action by particular countries, consumer behaviour change by particular groups and cost reductions in particular technologies. If partnerships are to succeed in catalysing green growth they must find and accelerate these pathways by identifying the sweet spots where strategic breakthroughs may happen.

3GF has developed a methodological tool for green growth partnerships which considers **barriers to transformative opportunities**, the **design of partnerships to overcome those barriers**, **who should be involved**, and how to achieve meaningful **global scale** and **maximize green growth**. [5] Over the past year, 3GF has been testing this approach, working with the leaders of established and emerging partnerships focused on value chains in order to identify opportunities for accelerating progress. These 'PPP tracks' are working towards concrete outcomes and commitments, and the sessions at 3GF 2013 will offer participants a chance to hear and test partnership and value chain ideas together, help to shape programs of action and explore the potential for further collaboration.

Achieving scaled impact should not be confused with a partnerships themselves becoming bigger, more established or more recognized. Partnerships (even large ones) are small-scale interventions in much larger systems. Their role is to develop and promote solutions which change the game, or change the rules, shifting the behaviour of the larger system in significant ways. [6]

THE VALUE CHAIN LENS

Value chains themselves have often been the attractor around which partnerships have coalesced; bringing together brands and manufacturers, consumers, civil society, governments, international organisations, trade unions, technology developers and investors.[7] Many of the first generation of international multi-sector partnerships explicitly focused on addressing the environmental and social impacts of production in global value chains such as the *Carbon Disclosure Project*, the *Voluntary Principles on Security*, the *Extractive Industry Transparency Initiative* and the *Forest Stewardship Council*. A second generation sought to open up new opportunities in value chains, whether for producers (such as small farmers and diverse innovators) or consumers (of products from malaria vaccines to financial services). Examples of this approach include *GAVI*, the *New Alliance for Food Security and Nutrition* and *Launch*.

The importance of domestic economic interests in the search for green growth tipping points suggests that a traditional approach to value chain partnerships, focused on global brands and global standards may not be enough to yield transformative results. A number of the partnerships featured at 3GF, such as the Water Resources Group 2030, the Industrial Symbiosis PPP track, the Partnership on Procurement for Green Growth and the 21st Century Power Partnership, are instead taking a country-by-country approach to understanding and unlocking opportunities. Their approach highlights that the 'green growth' search for sweet-spots where action both at national level, and within global value chains could combine to accelerate change.

Outlined below are four key ways in which the 'value chain lens' can be applied in relation to green growth partnerships:

Pressure points

Reputational pressures and the threat of regulation often provide a key point of entry for partnerships, with brand names acting as a lightning rod for consumer pressure and regulatory attention. For example rainforest destruction has been linked to global food brands, water quality and child labour to sportswear brands, civil war in the Congo to smart phones and climate change to the actions of the world's largest listed companies.

However sustainability issues and the value chains connected to them are broader and go far beyond big brands. Addressing the issues effectively means moving beyond the most high-profile and easy to influence part of the value chain. Otherwise there are risks of ineffective and poorly directed action.

For example, when supermarkets in Europe responded to consumer concerns over climate change by labelling airfreighted produce they risked damage to the livelihood of farmers in Kenya and Morocco, even though transport impacts were not the largest determinant of environmental footprints in horticulture. While partnership efforts have improved labour conditions in garment industry supply chains they have so far been unable shift the dynamics of ultra-low margins, poor productivity and unsafe working conditions in countries such as Bangladesh. Following the Rana Plaza tragedy, new partnerships were developed, but they still focus on a blame-the-brands, and audit-down-the-supply chain approach, rather than find new ways address the structural issues in the local industry.

At 3GF 2013, the Global Forest Watch 2.0 will demonstrate how a near real-time forest monitoring system may support the efforts of consumer brand companies to assure consumers that products in their supply chain are 'deforestation free'. However, the Global Forest Watch tool is being recognised by the much wider Tropical Forest Alliance who are working to understand how large companies, civil society groups, and government leaders can transform global commodity markets, leveraging international pressure points but going beyond them.

Environmental hotspots

Reputational drivers for starting partnerships means they often begin opportunistically where there is will to act and do not tackle the biggest impacts. For example, partnerships for voluntary measurement and reporting of greenhouse gasses started with a focus on the largest companies. As a result, ratings and awards for GHG management and reduction have compared companies across sectors rather than focus on the largest emitters, or the largest impacts of different sectors. For example in relation to greenhouse gas emissions 83% of large financial companies report on business travel, while only 6% of report on the impact of investments.[8]

Assessing environmental impacts across the whole value chain can help partnerships to identify hotspots. It is also crucial to avoid making efforts to improve environmental efficiency in one part of the value chain which only serve to shift (or even accelerate) environmentally negative processes elsewhere. Assessments which take into account supply chain impacts find that this is exactly what is happening globally. Assessments of value chain impacts find that the advances towards 'decoupling' of economic growth and environmental impacts measured in many countries have been smaller than was hoped, and in some cases are non-existent.[9]

Winners and losers

Economic transitions create winners and losers. More rapid transitions create more losers, as assets such as infrastructure and skills become stranded. The oil industry for example handles more than 30 billion barrels annually, in more than 100 countries using 3,000 large tankers and more than 300,000 miles of pipeline. Writing off this colossal infrastructure would amount to discarding an investment worth well over $5 trillion. Accelerating change is not simply a matter of developing new business practices, products and livelihoods faster but finding ways to enable old ones to retire more quickly. [10]

Failure to recognise the interests of losers can result in concerted resistance to green growth efforts. Most obviously have been the efforts expended by major players in the coal, gas and oil industries in funding communication campaigns which have set back public understanding of climate science and undermined political support for action. Other examples are the concerns and accusations that European and North American biofuels mandates have contributed to food price volatility and food shortages.

The relationship between the winners and losers of different policy approaches, and their relationship to the potential for scaling up environmental solutions extend along value chains and can be complex and contradictory . Policies which lowered the cost of solar panels produced in China, have played a key role in bringing down prices and expanding worldwide adoption. However green growth polices in the US and Europe are also focused on industrial development, and have led to support for anti-dumping measures to protect manufacturers from Chinese imports (while raising costs for installers and households). At 3GF 2013, the 21st Century Power Partnership is focused on critically examining not only the technical issues involved power market design, but also the political economy of winners and losers and how the barriers of vested interests in existing power systems can be overcome.

Value chain shifts

The most promising areas for partnerships seeking opportunities for scaled impact tend to those that are in flux. Scalable solutions are unlikely to be found in mature and stable markets, or amongst existing business partners and associations. In recent years the relationship between world trade and economic growth has changed, with trade slowing even faster than growth during the economic recession.[11] There are good reasons to think this may reflect a longer-term shift. Improvements in environmental regulation and rising wage rates in key developing countries have reduced the cost differentials that have underpinned the development of global value chains to their current form. At the same time virtualisation, social media and technologies such as 3D printing are making localised short-run customised production, and the sharing of assets viable, upsetting the dominance of standardised global products and value chains. New pressure points are emerging as developing countries have become important markets rather than simply bases for manufacturing and raw materials. Governments are using this buying power to demand localisation of technologies and employment.

These changes may lead to new opportunities, for example for 'circular economy' systems which depend on resources being able to be recycled close their point of use, and for partnerships which leverage government priorities for supporting the development of local value chains.

Consideration of value chain dynamics can provide a useful lens for those involved in partnerships for green growth. We invite participants in 3GF 2013 to consider the following questions in their discussions of specific partnership opportunities and strategies:

- **How can pressure points be leveraged** to encourage 'first movers', and how can this be used to support the development of a critical mass?
- **Where are the environmental hotspots** in key value chains, and are there dangers of displacement effects?
- **Who are the winners and losers** along the value chain and what strategies can be taken to recruit, neutralise or compensate them?
- **What changes are taking place** in key value chains and how should the partnership respond?

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