

Creating sustainable value chains



A case for action for piloting and scaling alternative business models that increase resilience in an increasingly disrupted world



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INTRODUCTION

The 2020s herald a pivotal moment to deliver on our significant climate, environment and development challenges. It is clear that the scale and pace of change needed will require truly transformative thinking. This means moving strategies well beyond efficiency or doing less harm and towards new goals that ensure business success also meets the needs of people and the planet.

Let's take land-based commodities as an example. It is often assumed that many of these (such as cotton, coffee or tea) will always be cheaply and readily available. But many farmers producing these vital agricultural resources are in a vulnerable or even desperate position, which current models of trading often compound. At the start of the 2020s there is a long way to go in ensuring global value chains are fit for purpose from a sustainable development perspective. If we are to avoid catastrophic levels of climate change we have less than 10 years left to do so,¹ and climate shocks and resource depletion are already putting severe strain on many of the world's most vulnerable farmers. The way that commodities are currently traded fails to provide many farmers with the financial or physical resilience to meet these mounting challenges. The window of time is shrinking to help farmers secure the decent livelihoods and resilient communities they need to continue producing the commodities we rely on.

Many of the fundamental problems in today's value chains can only be truly addressed through a move toward truly sustainable – and by that we mean more equitable, and “regenerative”, rather than just “less extractive” – ways of doing business. This includes models which repair and protect the ecosystems that agriculture depends on and which strengthen agricultural communities so that farming remains attractive to younger generations.

International sustainability non-profit Forum for the Future and its partners are working on the premise that mainstream models of trading can be transformed by piloting and scaling alternative, more equitable, business models and market mechanisms which meet the challenges of both the present and future. Given the scale of the transformation required, and the urgency of making progress to avoid the worst impacts of climate change, it is critical for those working in this field to collaborate and share lessons in order to accelerate change and avoid repeating the same mistakes.

This document describes the case for action for piloting and scaling alternative business models that have the potential to distribute value in more equitable ways. It provides a summary of the main failures of the current business models, the problems they create across agricultural commodities, the need for system level change, and highlights additional enabling factors for driving transformational change.

This case for action serves as a foundation to the [Sustainable value chains – case study series](#), which Forum for the Future is curating in partnership with other organisations in order to promote cross-commodity learning on alternative business models in tea, coffee, cotton and beyond. The case study series is intended as a useful resource for those planning, or already undertaking, work to test different business models. The lessons learnt have the potential to inform other projects addressing similar challenges, and ultimately accelerate the change that is needed.

¹<https://www.ipcc.ch/sr15/chapter/spm/>



AGRICULTURAL COMMODITY VALUE CHAINS – AND THOSE WORKING IN THEM – ARE AT RISK

The ways in which most commodity value chains function tend to work very well for maximising short term profits for a small number of large organisations, but are fundamentally flawed from a long-term sustainability perspective. Commodities such as tea and coffee, cotton, cocoa and palm oil are staples of everyday life in most parts of the world. They also provide livelihoods for millions of people across their value chains. And yet, these value chains are still modelled on a colonial system in which land, and growers, were exploited for maximum profit. In such systems, the health of the environment and decent livelihoods of farmers and workers are still often not factored in.



Environmental cost:

Key environmental impacts caused by unsustainable production methods include deforestation, loss of biodiversity, pollution from pesticides and fertilisers, loss of topsoil and soil structure - all of which will only be aggravated and accelerated by climate change.



Social cost:

While consumers can currently enjoy and even take for granted that these commodities will be available and affordable, the people who produce them often live in poverty and financial insecurity. In many commodity value chains, the majority of farmers are smallholders (those producing on just a few hectares, often relying on family labour)² who have limited power to demand a fair price. These smallholder farmers carry a disproportionate level of financial risk and yet their inputs to the system, such as labour, land or improvements to soil fertility are not being appropriately valued. Not only does this leave many trapped in a cycle of poverty, but also results in farms failing and families seeking other forms of livelihood.

As a result, young people globally are turning away from farming, no longer seeing it as an attractive or viable livelihood, and climate change is bringing additional challenges and disruptions. The insecurity of smallholder livelihoods threatens future security of supply, and consequently the future of whole agricultural value chains.

GLOSSARY

'Value chain' vs 'supply chain'

We use the term '**supply chain**' to refer to the system and resources required to move a product or service from supplier to customer.

The '**value chain**' concept builds on this to also consider the manner in which value is added along the chain, both to the product / service and the actors involved. From a sustainability perspective, 'value chain' explicitly references internal and external stakeholders in the value-creation process.³

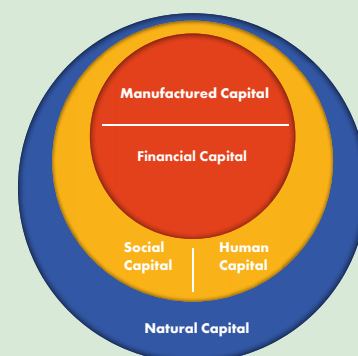
'Market mechanisms' vs 'business model'

We use the term '**business model**' to describe the overall strategy underpinning how an organisation operates. By changing the dominant business models we use, we aim to re-shape capitalism to operate within planetary boundaries and to meet the needs of all people.

We use the term '**market mechanisms**' to refer to the incentives and structures within the prevailing economic system that set how firms (the market) are rewarded.

'Sustainable'

We use the term '**sustainable**' to describe a dynamic process which enables all people to realise their potential and to improve their quality of life in ways that simultaneously protect and enhance the Earth's life support system. Sustainable development means being able to fulfil the needs of those living today without compromising the ability of future generations to fulfil their own needs. For this to be true, business models need to become regenerative and more equitable in nature, in a way that enables us to rebuild our reserves across the five types of sustainable capital from where we derive goods and services. The **Five Capitals model** helps us to understand how business relies on Human and Social Capital and, ultimately, Natural Capital; the natural resources on which resilience and wealth depend (and which are already depleted).



²The economic lives of smallholder farmers, Food and Agriculture Organisation of the United Nations, 2015. See: <http://www.fao.org/3/a-i5251e.pdf>

³ <https://www.cisl.cam.ac.uk/education/graduate-study/pgcerts/value-chain-defs>

SECURING FUTURE SUPPLY THROUGH SUSTAINABLE VALUE CHAINS

In order to secure supply of commodities into the future, smallholders and other producers will need confidence that decent livelihoods can be achieved in farming. They need to know that they can secure fair value for what they produce, as well as the means to increase their resilience to shocks and uncertainties. In contrast, current models of production are depleting the natural resources on which production is reliant - including acute loss of biodiversity such as vital insect pollinators, loss of top soil and pollution of watercourses. Consumers and investors are increasingly demanding traceable, ethical and sustainable production.

Securing future supply requires a shift to a new way of doing business which is inherently regenerative: which puts back more into the environment and society than it takes out, rebuilding the social and environmental capital which the mainstream extractive model has critically depleted. A big part of this will need to be a move towards a different model of trading which ensures a fairer distribution of monetary value and of risk along the value chain.

In other words, we need to transform value chains – and the business models that underpin them – to balance nature, people and economy. This requires fundamentally transforming value chains and changing the goal of the commodity production system:

FROM

Producing commodities as cheaply as possible in order to deliver maximum profit to a small number of powerful players.

TO

Producing sustainable commodities that regenerate the environment they are grown in and provide decent livelihoods for all participants in the value chain – through fair, transparent and equitable business models.

Benefits of regenerative, equitable value chains include:



Increasing farmer and community resilience



Enabling decent livelihoods



Preserving and managing key natural resources like soil and water



Enhancing, restoring and protecting biodiversity and vital ecosystems



Capturing carbon



DRIVING TRANSFORMATIONAL CHANGE

Transforming the commodity production system and moving to new distributive businesses models will involve shifting some deeply embedded practices and assumptions about how value chains recognise and deliver value.

Creating the transformation commensurate with the scale and urgency of the problem won't be possible through merely tweaking the existing system. A truly systemic approach is needed; understanding the dynamics, patterns and web of relationships across the entire commodity production system, particularly those that create complex problems such as:

- Uneven power dynamics
- Lack of transparency
- Price volatility
- Rewarding short term profit over long term sustainability

Creating this level of systems change requires urgent work and investment to research, pilot and share lessons from business models that do cost in externalities and distribute value fairly across value chains, while also generating profits. It will also mean carefully identifying how and where to take action and aligning efforts towards common goals.

EMERGING BUSINESS MODELS

Across many commodities, brands are acknowledging the need for new business models, particularly those that recognise and reward ecosystem services and that address farmer incomes.⁴

However, those approaches that do exist tend to be niche initiatives or geographically specific, rather than wholesale value chain changes. The Sustainable value chains - case study series aims to provide an opportunity for learning across commodities, enabling more efficient use of time and effort to improve and promote sustainable business models.

SIGNALS OF CHANGE:



A new **Agriculture Bill** introduced in the UK in January 2020 sets out how farmers and land managers in England will be rewarded with public money for “public goods”, such as better air and water quality, higher animal welfare standards, improved access to the countryside or measures to reduce flooding.⁵



Platform Living Wage Financials (PLWF), a collective of 12 financial institutions with over €2.5trillion invested capital, is working to assess and engage investee companies on living wages in their supply chains. PLWF is calling for more “mainstream activity” with companies seeing honouring living wages in supply chains as business as usual.⁶



HSBC has set up a **B2B sourcing platform** called Threads as a digital connector for buyers and sellers in the apparel industry. The goal of the platform is to help users to “build supply networks they know and trust, paving the way for transparent and sustainable supply chains” and to access credit instantly.⁷

⁴ <https://www.farmerincomelab.com/the-challenge>

⁵ <https://www.gov.uk/government/news/agriculture-bill-to-boost-environment-and-food-production>

⁶ <https://apparelinsider.com/investors-call-for-living-wages-for-garment-workers/>

⁷ <https://sourcingjournal.com/topics/sourcing/hsbc-serai-b2b-network-supply-chain-apparel-lever-style-esquel-192823>

RESOURCES TO SUPPORT CROSS-COMMODITY LEARNING

This case for action and accompanying case studies – covering a range of land-based commodities, from tea to coffee, cotton and beyond – are intended as a useful resource for those planning, or already undertaking, work to test different business models or market mechanisms. These resources seek to accelerate the change that is needed by promoting greater sharing of insights and alignment across commodities.

Along the way, it's crucial to experiment, allowing ourselves to fail fast and learn fast, so that we all do things better and better with each attempt. With persistence, and skill in working collaboratively, attempts like those shared in the case studies have real potential to move niche practices from a small scale alternative to becoming a significant part of the way things are done.

When designing projects, it is important to also recognise that piloting and scaling alternative business models in isolation, or as a stand-alone intervention, will not be sufficient for driving transformational change and achieving large-scale impact. Any such efforts will always need to be viewed within the context of and in combination with other approaches – ranging from creating end-user demand or creating new standards, to advocating for an enabling context – which other organisations or coalitions may already be working on. If deployed in the most impactful combination, these approaches have the potential to address critical barriers and drive change at the scale needed. You may wish to explore tools such as Forum for the Future's [Scaling Up Impact framework](#) and [Collaboration Guidebook](#) for further details.



ACCESS THE CASE STUDIES AT
www.forumforthefuture.org/creating-sustainable-value-chains

WE'D LOVE TO HEAR FROM YOU

Forum for the Future is actively looking for positive examples of alternative business models which can showcase and share insights. If you have an interesting example to share, please get in touch.

Please contact Forum for the Future's *Sustainable Value Chains and Livelihoods Challenge Lab* via Associate Director Charlene Collison at C.Collison@forumforthefuture.org if:



You or your organisation are interested in designing or collaborating on an initiative to test or scale up alternative models.



You need support in reviewing the business model that underpins how your organisation currently operates.



You would like to discuss the points raised in this case for action or any of the case studies in more detail.

To find out more, visit

<https://www.forumforthefuture.org/>

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For over 20 years, Forum for the Future has been working in partnership with business, governments and civil society to accelerate the shift toward a sustainable future.



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