

# It takes a system to change the system

Seven systems transformations for  
benchmarking companies on the SDGs

July 2021



**World  
Benchmarking  
Alliance**



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A lot has happened since we first published our paper on systems transformations, '[Measuring what matters most](#)'. 2020 should have kick-started the Decade of Action on the United Nations' Sustainable Development Goals (SDGs) but was derailed by COVID-19 almost before the year had started. The world is experiencing one of the largest public health crises in a century, causing severe shocks to economic, social and health systems across the globe. The COVID-19 pandemic has shown us how interconnected and interdependent systems are in ways that we did not fully understand before. The pandemic exposed the interlinkages between public health, social well-being, the economy and the environment, leaving no doubt that one cannot be addressed in isolation from the others.

With millions newly unemployed because of the pandemic, growing job insecurity and inequality, the world has recently experienced an outburst of mass protests. The Black Lives Matter (BLM) movement has sparked global protests against racial inequality all over the world and put institutional racism and racial inequality centre stage. Like COVID-19, the BLM movement uncovered some of the deep-rooted flaws in our societies.

The pandemic ignited social expectations of business taking greater responsibility for people and the planet. However, we need more transparency, clarity, leadership and accountability for business to positively impact people and the planet. The World Benchmarking

Alliance (WBA) is uniquely poised to meet this need with our work focused on driving the [systemic transformation](#) necessary to achieve the SDGs. Our benchmarks act as roadmaps for companies and industries to improve their performance and provide evidence that informs and enables dialogue. They reveal the failures and successes of business, providing clarity for businesses navigating the transformation journey and accountability along the way. Echoing the true spirit of SDG 17 (partnerships for the goals) and acknowledging that we cannot understand or change a system by simply addressing its individual parts, WBA has embraced and implemented a systems mindset. WBA operates as an alliance of users, shapers, amplifiers and influencers. By working together, we can achieve things that a sole organisation cannot, leveraging our expertise, networks and influence to positively impact company behaviour.

Our benchmarks are grounded in the seven transformations needed to put our society, planet and economy on a more sustainable and resilient path to achieve the 2030 Agenda. They provide the strategic framework that guides benchmark development and the identification of keystone companies – companies whose contribution is vital to achieving the SDGs, referred to as the '[SDG2000](#)'. These companies have positive and negative impacts across the systems on which we measure and rank their performance.

## Executive summary

Working across the different systems and building on the results of our first benchmarks, we find that most companies are not doing enough to drive impact and achieve the SDGs and the goals of the Paris Agreement. The COVID-19 pandemic has shown us that many of our fundamental systems are broken and has created an enormous sense of urgency for change. However, we should not be naive. Systems only change when the people, components and structures that cause the system to behave in a certain way change. We need to ensure that companies, but also governments, civil society, and investors, are accountable for the changes needed to achieve real system change and achieve the SDGs. By acting together with our Allies, WBA is creating an accountability mechanism that drives engagement and implementation of the SDGs by the private sector. By setting a system we can change the system.



# Introduction

The World Benchmarking Alliance (WBA) develops free and publicly available benchmarks that measure and incentivise company contributions towards the Sustainable Development Goals (SDGs). WBA aims to drive the private sector's engagement in the SDGs through our benchmarks, envisioning a future where companies, investors, governments, civil society and individuals can quickly and easily compare business performance and motivate a 'race to the top'. To do so, we identified seven systems transformations that are needed to put our society and economy on a more resilient and sustainable path. The paper outlining these seven transformations was published in July 2019 and is now updated to reflect how WBA is operationalising the transformations through our benchmarks and engagement and shows learnings and insights over time.

What began as the Decade of Action for the SDGs became a year of global crisis. The deep-rooted flaws in our system have been fully laid bare. Almost 3.5 million people have died from COVID-19 [1] and the pandemic has put health systems around the world under immense pressure and stretched others beyond their capacity [2]. It has triggered the biggest recession in 90 years and has dramatically set back SDG progress [3]. However, even before the COVID-19 pandemic, progress on the SDGs was uneven and the world was not on track to meet the Goals by 2030 [4]. Prior to COVID-19, it was estimated that we would not reach all the SDGs until 2082. The pandemic and associated economic crisis are likely to put progress back yet another decade [5]. By 2030, the number of people living in extreme poverty



## Introduction

could increase to over 1 billion, with a quarter of a billion pushed into extreme poverty as a result of the pandemic – potentially wiping out recent gains [6]. The amount of people at risk of starvation has doubled since the pandemic began, to 270 million [7]. Over 400 million jobs have been lost in this crisis, most of them in lower-middle income countries [8]. And human development – a combination of education, health, and living standards – could fall this year for the first time since 1990, when measurement began [9]. The pandemic is exposing existing inequalities and injustices, with marginalised and vulnerable groups like those employed in the informal economy, older persons, persons with disabilities, indigenous people, and migrants and refugees being hit hardest [4]. The impacts of this pandemic are so severe that it can be classified as a ‘transformative stressor’: a rare event that causes severe and intense social, environmental, and economic impacts that are not fully manageable [10] and that trigger a process of institutional change [11].

Without a doubt COVID-19 has disrupted many elements of our lives and has reminded us of the fragility of some of our most basic human-made systems [12]. The crisis shows us how interconnected and interdependent systems are in ways we did not fully understand before. Health, social inclusion, economic development and ecological sustainability are entwined and accompanied by increasing risks that threaten the stability and resilience of the whole system [13]. For example, economic pressures driving biodiversity loss and deteriorating ocean health can have cascading impacts on societies and may increase the risk of future zoonotic viruses due to deforestation and the increased

demand for and trafficking of wildlife [14]. In fact, the ongoing and accelerating sixth mass species extinction [15] is severely increasing the risk of another pandemic [16].

Going back to the ‘old’ normal is not an option if we want to achieve the SDGs. We need to transform the systems we rely on which make our world increasingly fragile. The term “build back better” has been widely used in the context of economic recovery from the COVID-19 pandemic. To build back better means not only getting economies and livelihoods back on their feet quickly, but also safeguarding prosperity in the long run [14]. As the European Commission notes, “the opportunity of getting out of the crisis greener and fairer cannot be wasted in the name of urgency” [17]. A central dimension of building back better is the need for a people-centred recovery that promotes well-being, improves inclusiveness, and reduces inequality [14]. This means recovery needs to be about more than just economic growth and job creation and needs to be centred on the well-being of people and advancing equality while decoupling development from negative environmental impact [18]. In other words, we need to build back better through a systems approach that recognises interdependencies.

# Introduction

Our socio-economic systems are deeply intertwined with the natural world on which we depend for our livelihoods. We need to take the time to look at our world through the lens of systems thinking. Only when we understand the deep interconnections that exist between people, governments, companies and the environment will we be able to develop pathways towards truly sustainable and resilient societies, that work for all people and support all living beings [19]. The SDGs provide an invaluable framework for recovery from the pandemic [20]. The SDGs were adopted to address risks and fragilities across economic, social and environmental domains. It can be argued that COVID-19 presents a stress test for the SDG approach as it requires a systems logic to solving sustainability challenges [13]. It is evident that we need a truly transformative recovery to reduce the risk of future crises and bring much closer the inclusive and sustainable development required to meet the SDGs and the Paris Agreement [21]. Without a focus on global emergencies, such as climate change and biodiversity loss, the world could face social and economic damages far greater than those caused by COVID-19 [14]. Although the ambition of the 2030 Agenda is as important as ever, there are voices that question “whether the goals are fit for the post-pandemic age” [22].

The current crisis presents opportunities to transform and catalyse positive change at a more accelerated pace than we imagined possible. Decisions taken now will shape societies and economies for decades, making it vital to not return to the unsustainable business-as-usual or short-term fixes. Large bodies of evidence show that adopting green stimulus measures can generate even more effective economic and employment growth and build more resilient societies by aligning the global economy with planetary boundaries [23]. However, research shows that economic stimulus packages designed to support companies through the COVID-19 crisis have largely failed to conserve nature or tackle climate change. In the green stimulus to date, the main focus has been on reducing carbon emissions, with only minor attention to attention on preserving and conserving nature and natural capital [24]. In addition, government stimulus packages are often not aligned with the 2030 Agenda and its 17 SDGs and research shows that this risks locking societies into economic models that advance the well-being of some at the expense of others and the planet [25].

# The need for corporate accountability

Across the globe and across all sectors, businesses of all sizes are facing an enormous recovery challenge. The pandemic has caused a decline in business activity, interruptions to global value chains, and increased unemployment [26]. An excessive focus on short-term financial value and an excessive build-up of corporate debt due to low interest rates has left many companies vulnerable to deteriorating economic and market conditions, such as the crisis triggered by COVID-19 [27]. The economic consequences of COVID-19 have put severe pressure on businesses and significantly driven up the cost of financing. This, in turn, has required governments to quickly respond to prevent insolvencies and bankruptcies and mitigate associated impacts on national economies and global growth prospects [28]. Most countries that have provided large-scale loans or equity injections to big businesses have required companies to fulfil certain criteria, notably on restricting dividend payments and bonuses, and sometimes even meeting environmental targets [29].

The pandemic has shaken up relationships between governments, businesses and the community. It has shown us how quickly and effectively governments, businesses and society can act in case of emergency. It has also exposed the need for government and business to work together more closely on embedding long-term sustainability inclusivity in their strategies. Since the start of the COVID-19 pandemic, there has been a call for a 'new social contract' between government, society and business. Social contracts have been under growing pressure for years, driven by inequality and challenges such as climate change [30]. The current crisis has exacerbated and exposed this problem [31]. The fight against COVID-19 brings even more pressure from consumers and citizens onto companies, pushing them to take more responsibility for societal challenges and act in the interests of a broader set of stakeholders beyond just shareholders [30]. As a response, business has come under scrutiny and has as a result stepped in to fill gaps in the action taken by governments [30]. Companies have assisted in the public response to the pandemic by, for instance, adapting supply chains to produce personal protective equipment or medical equipment. Others have made substantial financial contributions to support vulnerable communities. Many of these efforts have taken place through partnerships between companies, government, civil society organisations and others [32]. However, companies have also been reported to misuse economic COVID-19 stimulus packages by, for example, evading taxes and paying out dividends.





# The need for corporate accountability

The COVID-19 crisis has presented an opportunity to build back better, but this new reality demands fresh thinking from business, government and civil society. The decisions that these stakeholders take in the coming period, and the recovery strategies that they will implement, will define the next 10 years and beyond [33]. Increasingly, businesses are expected to play an active role in building more resilient, long-term and inclusive social contracts. Business has the influence and responsibility to drive the systemic transformation needed for a more sustainable, just and inclusive recovery. Setting this in motion, however, requires that businesses (including finance), governments and civil society collaborate in reimagining the world and holding each other accountable for it. This means that transparency, leadership and accountability must be front and centre for business to positively impact people and the planet.

According to the World Business Council on Sustainable Development, business can take critical action to support systems transformation across many of the key systems where it is needed [33]. These leverage points include making a robust case for change and shifting mindsets, advocating for policy and regulation that enables the transformation, helping to create the right financial incentives for new business models, enhancing flows of information through transparent reporting and disclosure, creating and scaling innovation of emerging technologies and business models, fostering and mobilising impactful collaborations, developing rules, measures and standards and aligning with other players around a shared vision built on radical intent [33]. Building on the results of our first benchmarks, however, we find that most companies are not doing enough to support the systems changes needed to achieve the SDGs and the goals of the Paris Agreement. A simple search shows that out of the 2,000 companies included in our SDG2000, 775 do not even mention the SDGs in their corporate communication materials. And among those companies that do reference the SDGs, many fail to go further to integrate the SDGs into their corporate strategies across the organisation [13].

# How WBA operates as a system

At WBA, we believe that it takes a system to change the system. WBA is an evolving system of interconnected individuals, teams and organisations (our Allies) that are committed to building a movement to measure and incentivise business impact towards a sustainable future that works for everyone. Echoing the true spirit of SDG 17 (partnerships for the goals) and acknowledging that we cannot understand or change a system by simply addressing its individual parts, WBA has embraced and implemented a systems mindset. WBA operates as an alliance of users, shapers, amplifiers and influencers<sup>1</sup>. We stimulate honest and informed dialogue among stakeholders, acknowledging the value of multiple voices in facilitating systemic transformations. We believe we can only achieve systems change through real, multi-stakeholder collaboration, working together towards a shared goal. Our multi-stakeholder [Alliance](#) of over 200+ organisations is aligned in a shared purpose and works towards systemic transformation that supports the achievement of the SDGs. By working together we can achieve things that a sole organisation cannot, leveraging our expertise, networks and influence to positively impact company behaviour change. The Alliance continues to grow and evolve as a diverse and collaborative community of voices that comes together to mobilise action.

<sup>1</sup> The Alliance represents the following stakeholder groups: academic and research institutions; benchmarks, reporting platforms, and standard setting bodies; business and multi-stakeholder platforms; financial institutions; governmental agencies and multilateral bodies; NGOs and civil society organisations; and sustainability consultancies.

The Alliance was created with the belief in the power of cross-sector partnerships to drive positive corporate behaviour change. However, many of our efforts can be fragmented and lead us to work in silos, hindered by a lack of common language or agreement on where to focus our attention. This is relevant for organisations across stakeholder groups and ecosystems. Yet, this is where the untapped potential to drive forward and elevate the impact of our work lies.

A set of Collective Impact Coalitions (CICs) were launched in 2021 to fill this gap. CICs are intended to provide a space for Allies to come together and develop coordinated action across sectors. CICs are designed to complement existing WBA research and engagement by focusing on the issues that we know are going to move companies and bring about systems change. CICs mobilise action around key issues from benchmark data that are catalytic to driving a systems transformation. In doing so, these coalitions strengthen the ability of our movement to ensure companies' accountability on critical issues aligned with the SDGs.

WBA is a young organisation that is characterised by rapid change and adaptation. Our people are purpose driven, and our purpose evolves with the world we work in and changes that happen all the time. Our purpose pulls us forward and requires a lot of trust and letting go of the comforting illusion of control. The way we operate,



## How WBA operates as a system

both internally and externally, challenges the traditional hierarchical organisational structures and empowers people, teams and members of our Alliance. Within WBA, we apply the TEAL principles of self-management, wholeness and evolutionary purpose. We believe that such an approach brings out the best in people, which in turn ensures the organisation is fit for purpose. Self-managed teams and decentralised decision-making means that smaller teams take responsibility for their own governance and for how they interact with other parts of the organisation. Decision-making processes are, like our benchmark development processes, based on consultation and rely on input from those who have expertise, interest or willingness to step in. How we work with Allies is also reflected through self-management: we are not working through rules and procedures but rather collaborate in ways that we believe will deliver the largest impact, such as through the CICs. Wholeness allows our colleagues to bring all of who they are to work and promotes inclusivity and diversity. Evolutionary purpose means that we view our organisation as a living entity, with its own energy and sense of direction, and where we are all responsible for contributing to its success. We believe we cannot fully predict and control the future; rather, we try to listen to it and let our decisions be guided by this evolutionary purpose and the environment that surrounds us.

For WBA to operate like a system, it also means that other parts of the system need to have the means, opportunities and willingness to take collaborative, evolving action to create lasting change [34]. WBA is built as a multi-stakeholder model, and by collaborating, building on each other's strengths, and sharing lessons learned across organisations, sectors and disciplines, we believe we can make real change happen. However, this requires all organisations within the ecosystem to fully engage in collective action in order to achieve WBA's theory of change.

**FIGURE 1: HOW CICs (COLLECTIVE IMPACT COALITIONS) WORK**



## How WBA operates as a system

As systems change is complex, long-term and involves collaboration with a broad range of partners, working with a significant degree of uncertainty is to be expected. Obtaining the required financial means for an organisation like ours to operate with the time and flexibility that is needed to work on the root causes of a problem can be very challenging [34]. WBA and many of our Allies are, however, fortunate to have strong relationships with both government and philanthropic funders that are willing to support collaboration, take a long-term view and have a tolerance for uncertainty and complexity.

By thinking and acting like a system, we try to listen hard and respond rapidly as the world changes around us. But we are still learning, and part of the journey involves us better understanding how system dynamics can help us to become more impactful in our work.





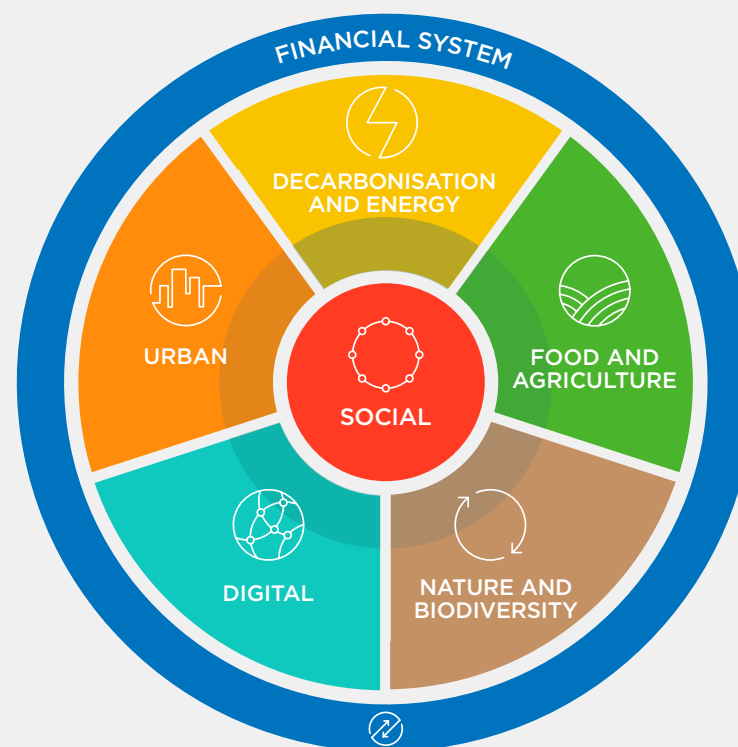
# Benchmarking companies across seven systems transformations

Setting a transformation in motion requires that business, governments, civil society and investors collaborate in reimagining the world – and holding each other accountable for it. All stakeholders must understand what society expects of business, where it excels, where it can improve and where urgent action is needed to deliver on the SDGs. Evidence empowers us to act towards a reimagined world. Informed and better decision making can be taken accordingly, catalysing change in the businesses that people believe in, buy from, work at, create policy for or invest in.

We are charting a clearer course for business. We provide roadmaps for companies and industries to improve their performance and our benchmarks provide evidence that informs and enables dialogue. They reveal the failures and successes of business, providing clarity for businesses navigating the transformation journey and a basis for accountability along the way.

Our benchmarks are grounded in the seven transformations needed to put our society, planet and economy on a more sustainable and resilient path to achieve the 2030 Agenda. They provide the strategic framework that guides benchmark development and the identification of keystone companies – companies whose contribution is vital if we want to achieve the SDGs – the ‘SDG2000’.

FIGURE 2: SEVEN SYSTEMS TRANSFORMATIONS



## **Social transformation**

Incentivise responsible practices that underpin inclusive and equitable economies and support systems transformations which leave no one behind.

## **Agriculture and food system transformation**

Produce healthy and nutritious food to feed a growing world population, while staying within planetary boundaries, and offering farmers, fishers and their families a decent standard of living.

## **Decarbonisation and energy transformation**

Significantly reduce the world's dependency on carbon-based energy through a just and equitable transition while providing universal access to modern energy services and adapting to climate change.

## **Nature and biodiversity transformation**

Secure a nature-positive future for humanity within our planetary boundaries that leaves no one behind.

## **Digital system transformation**

Achieve an inclusive, safe, and secure digital economy and society – one where people from all walks of life, in both developed and developing countries – are able to equitably share in the benefits of digital technology.

## **Urban transformation**

Create sustainable and inclusive cities that are safe, resilient, liveable and environmentally friendly.

## **Financial system transformation**

Ensure that the financial system enables a more sustainable allocation of resources and a more accurate representation of risks and opportunities, in line with planetary boundaries and social conventions.

## **Transformation vs spotlight benchmarks**

Through spotlight benchmarks, WBA aims to accelerate change around specific critical challenges in each of the seven identified transformations. We believe that this approach to addressing more focused topics can be catalytic for the SDGs as it helps to gain in-depth understanding of the role of particular industries (e.g. seafood and seeds) and issues (e.g. gender). Whereas the transformation benchmarks focus on scale and breadth, both in terms of companies included as well as topics, spotlight benchmarks are thematic deep dives that focus on a more limited set of companies.



WBA has identified 2,000 keystone companies across the seven systems that can be catalysts for change and whose actions are vital for wider, systemic transformation and the world's ability to meet the SDGs. These are the companies with the greatest potential to achieve a more equitable and sustainable future. They are dominant globally, headquartered from Algeria to Vietnam, with massive power and influence across their networks. They are publicly listed, privately held and state-owned enterprises. They represent a combined revenue of USD 46 trillion, contributing to half of the size of the 2019 world economy, and directly employ over 100 million people worldwide, plus many millions more throughout their supply chains. These companies have positive and negative impacts across the systems on which we measure and rank their performance.

The SDG2000 was first published in January 2020 and was updated in January 2021.

### **From transformations to industries**

The starting point for each of the seven systems transformations was to identify the most relevant industries that can impact the transformation. We particularly focused on the influence that specific industries have on shaping the transformations. The influence of industries can be positive, whereby the industry enables or accelerates the transformation; negative, whereby the industry hampers or negatively influences the transformation; or both, in which the industry can use its role to both negatively or positively contribute to the transformation.

Industries can be linked to multiple transformations. For example, while food & beverage companies have an important role in ensuring sustainable production and providing healthy and nutritious food (food and agriculture transformation), they also play a vital role in reducing the need for single-use packaging (nature and biodiversity transformation). Although both positive and negative influences were considered, some industries were excluded from SDG2000 on the grounds that large negative impact from business models or products and services meant their role in the transformation would be limited (e.g. companies that derive their revenues predominantly from the sale of tobacco, coal and weapons).

### From industries to keystone companies

WBA builds on leading academic research that identified the concept of keystone actors. This was inspired by the ‘keystone species’ term in ecology and emphasises that the largest companies in a given industry can operate similarly to keystone species in ecological communities. This means that they can have a disproportionate effect on the structure and the system in which they operate [35]. Inspired by this concept, WBA has developed the idea of ‘keystone companies’. This concept draws on five principles that have guided the identification of companies for the SDG2000:

- 1 The company dominates global production revenues and/or volumes within a particular sector
- 2 The company controls globally relevant segments of production and/or service provision
- 3 The company connects (eco)systems globally through subsidiaries and their supply chains
- 4 The company influences global governance processes and institutions
- 5 The company has a global footprint, particularly in developing countries

For most industries, we used Eikon (Refinitiv) to screen for the largest companies based on revenues as the starting point. Revenues include consolidated subsidiaries where available. We then used a number of other keystone metrics depending on the system and industry, often using a combination of keystone metrics alongside the latest reported annual revenues (typically 2018). Examples of keystone metrics include assets under management (AUM), number of people served, number of subscribers, number of passengers, production volumes and greenhouse gas (GHG) emissions (principle 1). We also reviewed headquarter and subsidiary locations (principle 5). The top companies

selected include public, private (including family-owned) and state-owned companies, and cooperatives. In order to ensure that the most influential and relevant players were included in the SDG2000, we reviewed a large number of existing initiatives and comparable lists of companies to ensure all relevant companies were considered through an extensive process of cross-checking.

Consideration was also given to the importance and role of particular sub-industries, business activities and segments of production/service provision in achieving the transformation (principle 2). For example, for the food and agriculture transformation, specific food groups (such as dairy, fruit and vegetables, grains and oilseeds, livestock, seafood) are considered key in the shift to healthy diets. We ensured that key players engaged in these food groups were explicitly included. For the financial system transformation, particular consideration was given to the role that different sub-industries play in the flow of capital, including asset owners, asset managers, banks and companies providing other financial services. For decarbonisation and energy, we looked at the scale of different scopes of GHG emissions by industries. For example, we assessed the potential of companies in the heavy machinery and electrical equipment industry to contribute to decarbonisation with a particular focus on scope 3 emissions (from product and service innovation). This type of research guided both the selection and exclusion of companies and the total number of companies for each relevant industry.

More detailed research into companies helped us to better understand their relevance to the transformation. We conducted additional research by reviewing business models, product and service portfolios, geographic presence, consumer base, subsidiary networks and supply chains (principle 2 and 3).

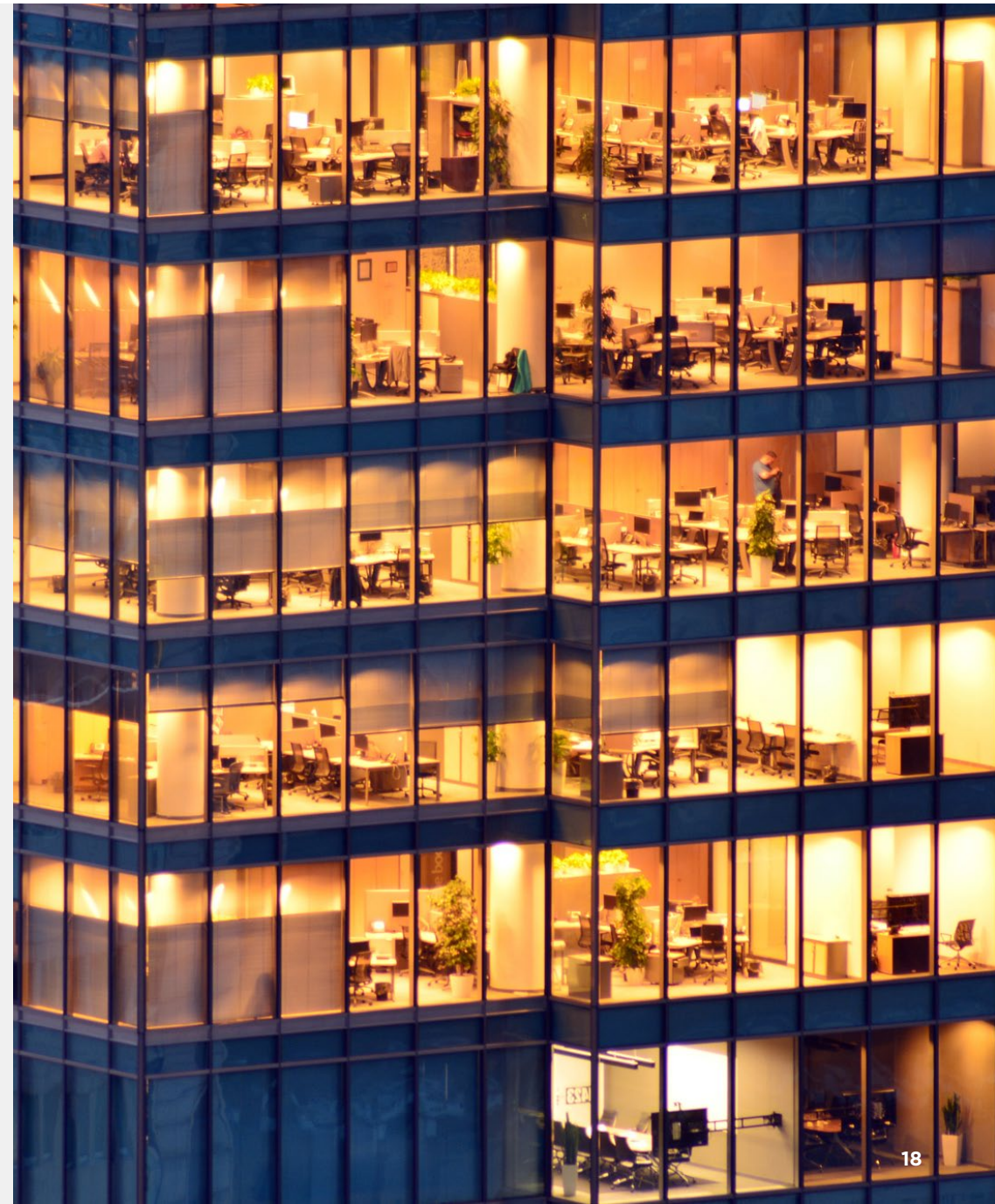
Lastly, in order to ensure global relevance and spread, we specifically focused on including influential companies headquartered in emerging, frontier and developing markets (principle 5). In addition, some smaller companies were excluded due to overrepresentation or included due to underrepresentation of particular regions and/or countries in the sample.

Due to the lack of comprehensive data we have not assessed companies systematically against principle 4, but have considered a wide range of factors such as reputation, research into the most well-known and influential brands globally and membership in business/industry associations and business platforms.



### From keystone companies to benchmarks

The 2,000 companies identified represent the companies with the greatest potential to transform systems and influence outcomes on the SDGs. As these companies hold dominant positions in their respective industries and supply chains, they have the power to be active agents of change and play a key role in driving the transformations needed. Each keystone company will be assessed against the transformation(s) to which it is linked. As a result, companies can be included in multiple benchmarks if they are linked to multiple transformations. All companies included in a WBA benchmark will be assessed on their contribution to the social transformation as each of these companies has a role to play in ensuring a socially equitable world.





The social transformation sits at the heart of WBA's model, underpinning the food and agriculture, decarbonisation and energy, nature and biodiversity, digital, urban and financial system transformations.

The social transformation seeks to *incentivise responsible practices that underpin inclusive and equitable economies and support systems transformations which leave no one behind.*

## Why change is needed

The COVID-19 pandemic is one of the most severe crises of our time. It has led to a dramatic loss of human life and mitigation responses are impacting lives and livelihoods at an unprecedented scale. The pandemic has raised new barriers to building inclusive and equitable economies and societies [36]. Global extreme poverty has risen in 2020 for the first time in over 20 years as the disruption of the COVID-19 pandemic compounds the forces of conflict and climate change, which were already slowing progress in poverty reduction [37]. The pandemic-induced 'new poor' was estimated to be between 119 and 224 million globally in 2020 while the number for 2021 is projected to rise to between 143 and 163 million [38]. Those working in the informal economy – about half of the global workforce or 1.6 billion people – have been significantly affected [4]. It is likely that the SDG focusing on eradicating extreme poverty (Goal 1.1) will be missed by a large margin [39]. The pandemic is also deepening pre-existing gender gaps, even as women have been at the COVID-19 frontlines. The estimated time to close the gender gap has now increased to 135.6 years [36]. With



## Social transformation

millions of newly unemployed because of the pandemic and growing inequality, protests in emerging and frontier markets are set to swell [40]. Fuelled by a combination of economic woes, growing inequalities and job insecurity, the world has recently experienced an outburst of mass protests [41]. Following the killing of George Floyd in Minneapolis by a police officer, the US witnessed one of the largest protest movements in its history with the BLM movement, demanding systemic change. And while the BLM movement has its roots in the US, it has sparked global protests against racial inequality in at least 60 countries [42]. The inequality challenge is global and strongly connected to other global challenges such as the climate crisis, urbanisation, migration and rapid technological change. In many places, inequality could further increase under the forces of these megatrends [41].

We know that our current systems must change to achieve a sustainable future for all, as envisaged by the SDGs, and it is clear that the private sector has a key role to play in this. While it is true that business has been a catalyst for human development, our current capitalist models are leaving too many people behind. The exclusive focus on creating shareholder-value is deepening inequalities and hindering the achievement of universal human development, exacerbating social crises like the ones described above. If companies are going to support the SDGs, they must also embed a central principle of the SDGs: to leave no one behind.

Unless companies truly value all people, the social transformation will

not succeed, and the systems transformations will be undermined. The world needs companies to contribute to the social transformation, by putting people at the heart of their business models and activities. We need companies to profitably solve societal problems, without profiting from social harms. And we need companies to ensure they leave no one behind as we transition to regenerative economies and equitable societies where people are empowered to pursue the opportunities and choices they value.

### How WBA is accelerating systems transformation

When we talk about business it is easy to forget that we are really talking about people. Companies are collections of humans, whose decisions and actions impact other humans: employees and their families, surrounding communities, workers in their value chains and consumers. It seems only right then for companies to put people at the heart of what they do. For WBA, the social transformation is about putting people at the heart of business contributions to the SDGs as well as at the heart of our model. It is not a standalone transformation but an integral part of all systems transformations, which ultimately revolve around people.



WBA believes there are three key enablers for the social transformation, which provide companies with a foundation on which opportunities for positive impact can be built.

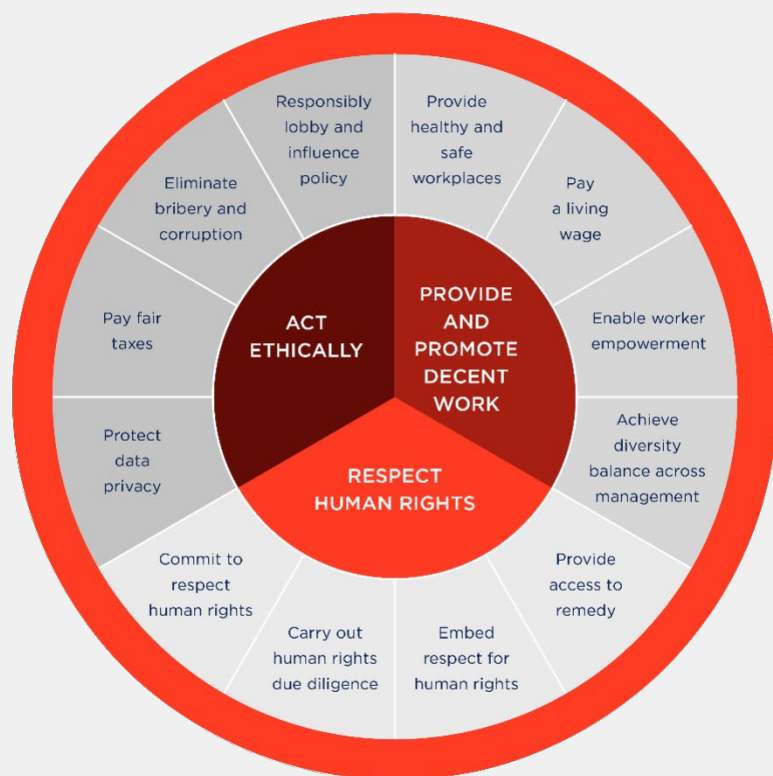
**1. Respecting human rights.** Respect for human rights is a necessary condition for all systems transformations. The 2030 agenda aims to “realise the human rights of all”. Human rights are inextricably linked to the SDGs, with over 90% of the SDG targets directly connected to international and regional human rights instruments and labour standards [43]. Companies play a critical role in achieving the SDGs and have responsibilities to respect the human rights of those involved in or impacted by their operations. As such, company’s respect for human rights is relevant to any SDG with which a company interacts. In short, human rights and human development go hand in hand. The UN Working Group on Business and Human Rights noted in 2018: “Robust human rights due diligence enables and contributes to sustainable development. For businesses, the most powerful contribution to sustainable development is to embed respect for human rights in their activities and across their value chains, addressing harm done to people and focusing on the potential and actual impacts” [44]. Human rights is the motor that powers responsible business conduct, and it underpins the realisation of decent work and ethical conduct.

**2. Providing and promoting decent work.** Decent work includes providing secure, safe and healthy work, where people are fairly and equally remunerated, where workers have a meaningful say in decision-making, where discrimination is not just eliminated but the barriers to equal treatment have been removed and where all people are enabled to pursue the opportunities and choices they value. WBA expects companies to provide decent work in their own operations and to promote decent work in their value chains.

**3. Acting ethically.** In addition to the key expectations on human rights and decent work, companies are expected to act ethically on fundamental issues like data privacy, corporate taxation, bribery and corruption as well as lobbying and political engagement.

To bring these enablers to life, WBA identified 12 high-level societal expectations (see figure 3) that companies should meet if they aspire to be part of a system transformation that leaves no one behind. The expectations do not cover all aspects of responsible business conduct but focus on the behaviours and outcomes we see as most important in enabling and underpinning the private sector’s contribution to the social transformation. All keystone companies will be assessed on a series of universal indicators that indicate if companies are serious about, or on the path to meeting, the 12 expectations. We see meeting these requirements as a pre-requisite for responsible companies who want to contribute to the SDGs and the systems transformations. They are a stepping stone to the 12 high-level societal expectations, providing a baseline to assess the scale of the required transformation for business.

**FIGURE 3: EXPECTATIONS ON BUSINESS FOR SOCIAL TRANSFORMATION**



To put people at the heart of WBA's benchmarks, we embed the 'leave no one behind' principle in the food, finance, urban, energy, digital and nature and biodiversity transformation benchmarks, by including a set of universal and transformation-specific social indicators in their methodologies. Achieving the social expectations thus becomes an objective of each of the other six system transformations.

Beyond this 'embedding' approach above, WBA has identified three priority areas of the social transformation which cut across sectors and which we believe can drive catalytic change in support of the SDGs. These priority areas are 'respect for human rights', 'living wage' and 'gender equality'. To support progress in the social transformation and these priority areas, WBA can develop spotlight social benchmarks which dive deeper into specific topics and sectors. The first spotlight benchmarks for the social transformation are the [Corporate Human Rights Benchmark](#), for high-human rights risk sectors, and the [Gender Benchmark](#) for the apparel sector.

Because of the social transformation's integration with the other six transformations, a single standalone 'transformation benchmark' has not been developed, but there is potential to expand topics such as gender equality and living wage to all 2,000 companies in scope to support the transformation.

## Corporate Human Rights Benchmark (CHRB)

Preventing adverse impacts on workers, communities and consumers is one of the most pressing challenges almost every company faces. Business can create jobs and secure livelihoods, provide products and services, support community development and provide tax revenue for the state to invest in the well-being of people. Yet, without a sound commitment to human rights and implementation through due diligence, jobs can be precarious with poverty wages, indigenous peoples can be dispossessed of their ancestral lands and individuals can be subjected to modern day slavery, amongst a range of other

## Social transformation

potential impacts. The benchmark provides a comparative snapshot of key companies, the policies, processes and practices they have in place to systematise their human rights approach and how they respond to allegations of human rights abuses.

### Gender Benchmark

The Gender Benchmark assesses how the world's most influential apparel companies are driving and promoting gender equality and women's empowerment across their value chain. A benchmark on gender equality and women's empowerment is relevant for all industries. However, the Gender Benchmark begins by measuring and ranking companies from the apparel industry, due to the high number of women workers – particularly in companies' supply chains – and consumers it reaches. Lessons from the Gender Benchmark will inform the mainstreaming and scale-up of gender assessments to support the gender equality work of the social transformation.

### Systems insights

Social transformation demands systemic action. Social issues are interconnected and woven throughout all the other systems; they cannot be singled out. Developing a dedicated social transformation benchmark would not allow for a systemic approach, hence the core social indicators are integrated into the transformation benchmarks. Without shining a light on a company's social practices and assessing how it takes care of people, we cannot meaningfully assess a company's contribution to any transformation. Contributing to the social transformation represents a first step towards system change and

shows whether companies do this in a decent way that leaves no one behind. Businesses are part of the solution, but also part of the problem, simultaneously contributing to reducing and increasing inequalities, alleviating and deepening poverty, enhancing and restricting civil liberties as well as supporting and eroding government capacities. But the results from our benchmarks show there is a significant gap in terms of companies' respect for human rights, provision of decent work and ethical conduct. We are far away from the transformation needed to achieve the SDGs. One major hindrance is the fact that corporate supply chains are very opaque, with limited transparency about where companies produce their products. Not knowing where their workers are makes it extremely difficult to assess companies' impact on people.

Results from the Corporate Human Rights Benchmark (CHRB) show that a number of companies are meeting the fundamental expectations of the United Nations Guiding Principles on Business and Human Rights (UNGPs), with strong commitments and rigorous procedures in place. However, human rights due diligence, despite being so crucial for the effective management of human rights risks, remains an area of poor performance across all sectors, with nearly half of the companies assessed failing to score any points for this part of the assessment. Companies cannot address what they do not see. Without gaining knowledge about their human rights risks, companies are unable to address the risks present in their own value chain and thus the broader social and economic system. They cannot prevent, mitigate or remediate such negative impacts or identify opportunity for positive impacts. The results of the benchmark also show a disconnect between



## Social transformation

commitments and processes on the one hand and actual performance and results on the other. Even for companies with robust commitments and management systems, such principles do not automatically translate at a practical level, with allegations of severe human rights violations regularly raised, even against some of the highest scoring companies.

With regards to the private sector's response to COVID-19, the CHRB COVID study shows that most companies, across all sectors, have failed so far to demonstrate a meaningful response to the crisis. Most still have a long way to go to adequately manage the risks and impacts of COVID-19. Given the amount of public financial support provided by governments around the world since the beginning of the crisis, it is particularly concerning that two-thirds of companies failed to describe steps taken to avoid redundancies. The study also shows, however, that certain basic steps to manage the human rights risks and impacts of the crisis have been widely adopted by companies, with a few companies demonstrating leading practices. This shows that business can place human rights at the heart of their response to the crisis if they choose to do so.

Results from our gender baseline assessment show that current corporate disclosure around gender efforts is woefully insufficient. As a result, gender inequalities all too often go unnoticed because of invisible gender data. Where gender data exists, companies focus primarily on avoiding gender-related risks and disclosing what is legally required, rather than proactively driving transformative change in the

industry. Furthermore, companies do not take a strategic approach to gender across their value chain, often missing key gender impacts in the workplace, supply chain, marketplace and community.

Business has an important role to play but it should be noted that other stakeholders also have an important role. No one business, government or organisation can drive social change alone. Transforming social impact of business requires effective and informed cooperation between parties. It requires an enabling environment that encourages companies to contribute on a voluntary basis as well as regulatory action to raise the bar and ensure that companies respect the rights of all potentially affected stakeholders.





The agriculture and food system transformation seeks *to produce healthy and nutritious food to feed a growing world population, while staying within planetary boundaries, and offer farmers, fishers and their families a decent standard of living.*

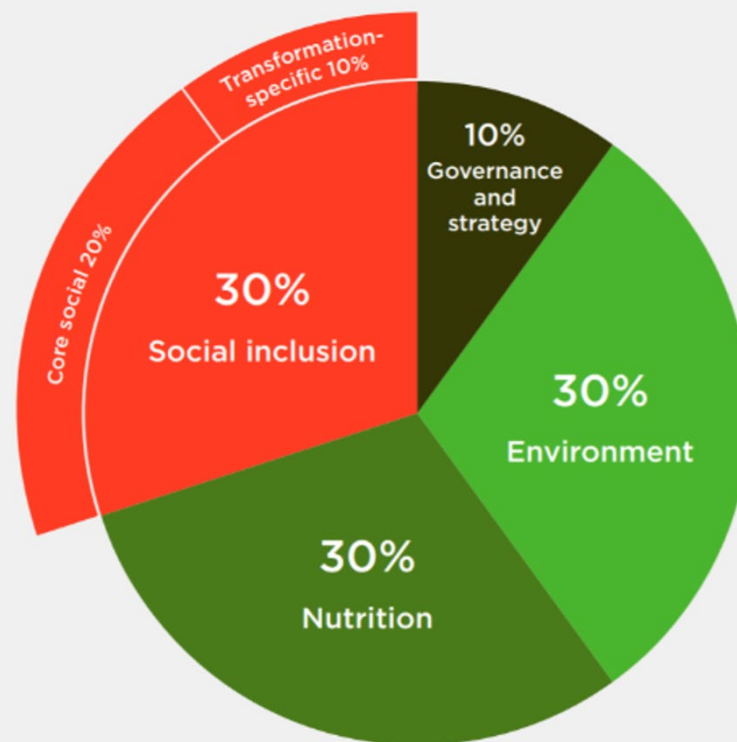
## Why change is needed

The COVID-19 pandemic has revealed the systemic weaknesses in our global food system, pushing millions more people into hunger due to disruptions to food supply chains. Despite successful harvests and available food reserves, supply chain interruptions due to lockdown measures meant products could not be moved from farms to markets, processing plants or ports, leading to food shortages [45]. In addition, many people have lost their income and as a result food has become unaffordable for them. There are fears that the situation will deteriorate even further and that the world is at the brink of a hunger pandemic [46], undermining efforts to achieve SDG 2 (zero hunger). Many low income countries are already experiencing acute food insecurity [4]. It is estimated that the COVID-19 pandemic may add another 83 to 132 million people to the total number of undernourished in the world [47], exposing the inability of complex supply chains to ensure the availability of nutritious foods for all in the event of disruption. While food systems contribute to economic prosperity and human and planetary health, at the same time, approximately three billion people cannot afford a healthy diet and more than three billion people suffer from one or more manifestations of poor nutrition [47]. Poor diets are the main contributor to the global burden



of disease, accounting for 20% of premature disease-mediated mortality globally [48]. The global population is predicted to reach 9.7 billion by 2050 [49], up from about 7.8 billion in 2021, but food systems are already operating beyond some planetary boundaries. Agriculture and its associated land-use changes are the biggest contributors to climate change, land degradation, deforestation and biodiversity loss, with half of the global food production relying on exceeding the planet's environmental boundaries [50]. Without dedicated measures, these impacts could increase by 60 to 90% by 2050 [51]. The need for a fundamental transformation of food systems has become undeniable. Research shows that if we transform towards more sustainable production and consumption patterns, we could support over 10 billion people within planetary boundaries (biosphere integrity, land-system change, freshwater use, nitrogen flows) [50]. This transformation to healthy, sustainable and inclusive food systems needs to encompass how we produce food, the livelihoods of people in the food industry and what we actually eat. This makes food systems transformation a value chain challenge that requires action from farm to fork.

FIGURE 4: WEIGHTING OF MEASUREMENT AREAS FOR THE FOOD AND AGRICULTURE BENCHMARK





## How WBA is accelerating systems transformation

The Food and Agriculture Benchmark takes a holistic approach to food systems transformation, assessing companies throughout the food value chain on a broad set of indicators in four measurement areas: governance and strategy, environment, nutrition and social inclusion. Based on the topics in these areas, the benchmark assesses the contributions of the 350 companies in its scope. These 350 companies that span the entire value chain are globally active, have diversified businesses and operate in multiple food groups and industries. They are headquartered in 41 different countries, represent USD 8.7 trillion in global revenues – more than half of global revenues in this sector – and have a vast collective supply chain presence – one which significantly exceeds their direct operational presence.

Where the Food and Agriculture Benchmark focuses on breadth in terms of company scope, as well as indicators, it acknowledges the need for an in-depth understanding of the role of particular industries and the issues within the food value chain. Therefore, within the agriculture and food system transformation WBA is currently also focusing on two spotlight benchmarks, the Access to Seeds Index and the Seafood Stewardship Index.

## Access to Seeds Index

Seeds play a key role in the future of our food, agrobiodiversity and food security. In regions where agricultural systems are dominated by smallholder farmers, access to the key inputs needed to produce more and better food is often lacking. Since its establishment in 2012, the Access to Seeds Index has set out to increase transparency around the seed industry and encourage seed companies to improve access to seeds for smallholder farmers. The index focuses on three main regions: Western and Central Africa, Eastern and Southern Africa and South and South-East Asia. In particular, the index highlights the importance of local and regional companies, alongside their global peers, in providing access to seeds for smallholder farmers.

## Seafood Stewardship Index

Seafood has a crucial role in feeding and employing people all around the world, especially in developing countries. Three billion people rely on seafood as an essential part of their diet. Seafood plays an important part in contributing to healthy and sustainable food systems, however the fisheries and aquaculture sectors face a number of social and environmental challenges. In 2019, the first Seafood Stewardship Index was published. The index was developed to provide more clarity about the corporate performance of the largest global seafood companies, in particular on issues specific to the sector. Some of these include the protection of human rights in fisheries, supply chain transparency and illegal, unreported and unregulated fishing.

## System insights

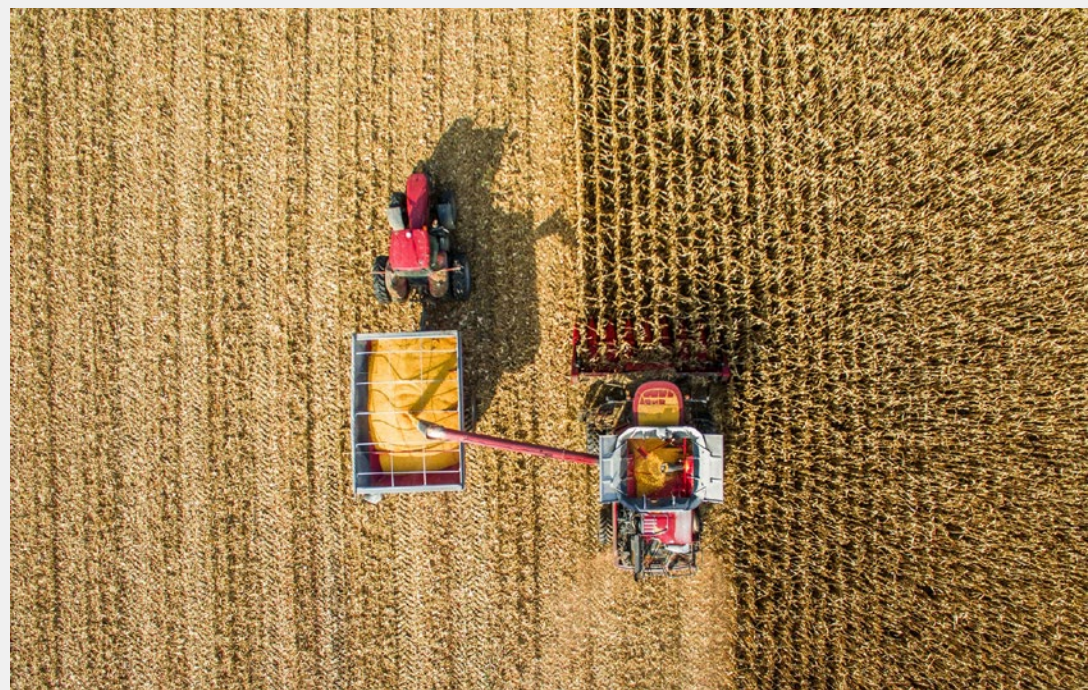
To address the challenges of the food system, the Food and Agriculture Benchmark takes a holistic approach that acknowledges the interconnectedness and interdependency of different parts and dimensions of the global food system. This approach is in line with other global agendas, such as EU's Farm to Fork Strategy and the UN Food System Summit, which emphasise that a fair, healthy and environmentally friendly food system go hand-in-hand. Our research shows that companies overlook key areas of impact across the three dimensions of environment, nutrition and social inclusion and lack the commitments and targets urgently needed to protect the planet and improve human well-being. Roughly a quarter of the companies assessed at the end of 2020 as part of a baseline assessment had not publicly disclosed commitments to key topics underpinning the food systems transformation agenda. The other 75% have taken the first steps towards acknowledging their role and responsibility by publicly disclosing targets and commitments in some key areas. Generally, however, companies displayed weak or incomplete understanding of their contribution to a healthy, sustainable and more equitable food system. Particularly, improving nutrition poses the biggest challenge for companies. This raises concerns about how to achieve consensus and progress in this hugely important dimension.

The Food and Agriculture Benchmark focuses on the most influential players across the food value chain. Today's agri-food system is complex and interconnected. Actors across the value chain are linked by horizontal and vertical cooperation, forward and backward integration in the supply chain and continuous innovation [52], with significant challenges including the perishability of products, long production cycles and high degree of variability in both the quality and quantity of supply [53]. A closer look at the companies included in the benchmark shows how interconnected these players are, also crossing value chain segments and industries, up- and downstream. For example, seed companies are providing advice and solutions to retail companies on their fresh produce offerings. Additionally, chemical companies are working with food and beverage manufacturers to enhance sustainability and traceability in their value chains. This interconnectedness and interdependence also mean that in particular, downstream companies are highly reliant on the performance of upstream partners for achieving their sustainability targets. The food system transformation thus requires working with, and incentivising, their suppliers or partnering with a broader coalition of companies to address mutual goals. The interconnectedness also means that the keystone companies included in the benchmark are strongly linked to small producers and small and medium-sized enterprises (SMEs), which are dominant in the food and agriculture sector.

Despite the importance of working across the supply chain, comprehensive understanding of these interconnections and of their supply chain structures remains limited due to minimal corporate disclosures. Initial research by WBA has shown that the majority of keystone companies have little or no public information available on their sourcing activities, such as the origin of key agri-commodities or locations of major suppliers. While disclosure is improving in some areas, particularly in relation to commodities such as palm oil and cocoa, it is rare for companies to disclose information beyond their tier 1 supply chain partners.

Issues addressed in the benchmark are also highly interconnected and should not be considered in isolation. For example, transitioning to a diversified protein portfolio is both important from an environmental point of view, in order to reduce food-related GHG emissions, as well as a nutrition perspective, in reducing global diet-related mortality [54, 55]. Furthermore, the agricultural sector currently uses 70% of fresh water, which has helped to increase food production in many parts of the world, yet at the same time is depleting freshwater sources. The agriculture and food system transformation is also strongly connected to the social transformation. Food and agriculture companies are the world's largest employers. However, over one-third of the companies assessed in our baseline study do not sufficiently acknowledge their responsibility to ensure that the human rights of workers in their supply chain are respected, nor do they demonstrate any intention of helping to improve the livelihoods

of smallholder farmers. Worryingly, 40% of the companies have made no public commitment to eliminate child and forced labour in their own operations and supply chains. This shows that the most influential food and agriculture companies do not sufficiently acknowledge their role in combating the social challenges we face. With inequality and poverty at the root of social issues, the exploitation of land rights and the vulnerable position of many smallholders and workers fuels a system in which the potential for human rights abuses is high. Strategies for impactful change need to address all of these issues in conjunction, not in isolation. A systemic approach is the only way forward.







The decarbonisation and energy transformation seeks to *significantly reduce the world's dependency on carbon-based energy through a just and equitable transition while providing universal access to modern energy services and adapting to climate change.*

## Why change is needed

From catastrophic wildfires across Australia, California, Siberia and Brazil to a record-breaking Atlantic hurricane season, the impacts of climate change are felt in every part of the world. In May of 2020, the world saw the amount of CO<sub>2</sub> in the atmosphere hit a record high of 417 parts per million [56]. Despite efforts to reduce carbon emissions and temporary dips in emissions during the first COVID-19 lockdowns, “the world remains way off target in staying within the 1.5-degree limit of the Paris Agreement,” according to UN Secretary-General António Guterres [57]. Without structural changes to our economies, continued accumulation of GHGs in the atmosphere will lead to potentially devastating further impacts [14]. Over the last two years, the world has seen millions of people protesting across the globe in movements particularly driven by young people standing up for their future and demanding urgent climate action. As a result, several governments have officially declared a “climate emergency” [14].

Climate change presents the single biggest threat to sustainable development and affects the entire 2030 Agenda. A major decarbonisation and energy transformation is needed to align with global efforts to prevent the worst impacts of climate change and limit

global warming to well below 2-degree. Without urgent climate action, the world will experience more extreme weather events, rise of sea levels and negative impacts on ecosystems. These will have a disproportionate effect on the poorest and most vulnerable populations for decades to come.

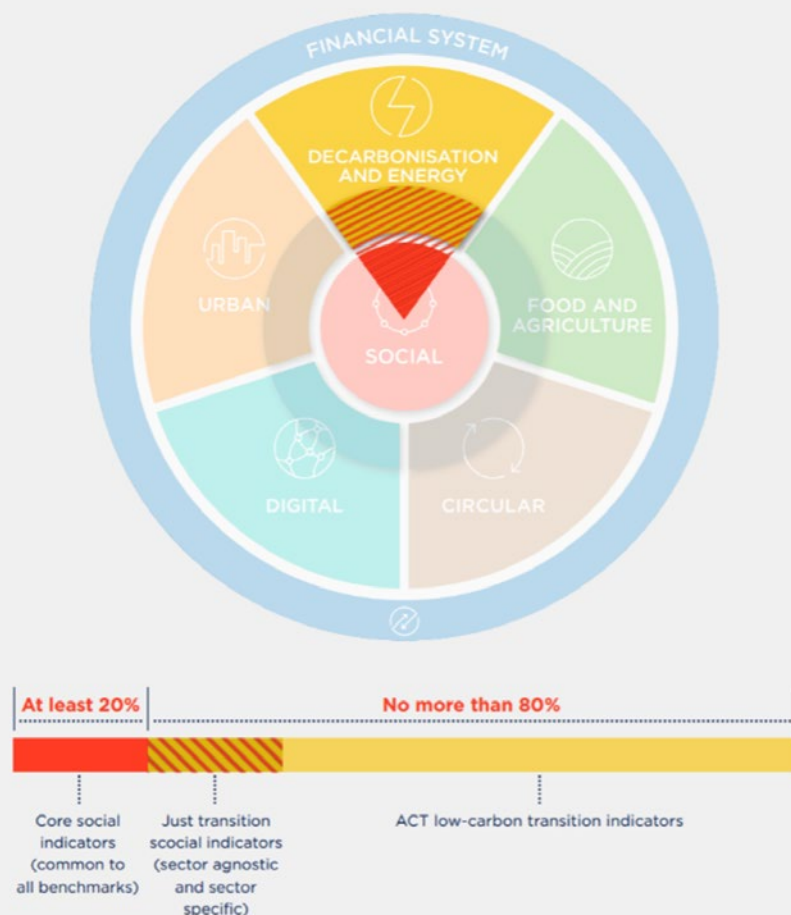
Transforming our energy system and decarbonising the economy are crucial steps in the fight against climate change and therefore have a potential impact on billions of people. The decarbonisation and energy transformation will directly impact the lives of those involved in high-emitting sectors, energy generation businesses and their extended supply chains. As seen by the *gilets jaunes* protests in France, as well as protests in Ecuador and Chile [58], approaches to achieving the Paris Agreement temperature goals that do not bring people along can have many secondary impacts beyond unemployment, including civil unrest. The social challenges arise when the transition to a low-carbon economy is not sufficiently planned or resourced to manage social impacts and when it happens too fast for policy and socially focused interventions to keep pace.

## How WBA is accelerating systems change

The Climate and Energy Benchmark assesses the highest carbon emitters and measures corporate progress against the Paris Agreement and SDG 13 (climate action). It measures the readiness of companies to transition to a low-carbon economy, using the future-oriented ACT (Assessing low-carbon transitions) methodologies. The assessments use company emissions pathways based on the

sectoral decarbonisation approach developed by the Science-Based Targets Initiative (SBTi). To assess companies against the well-below 2-degree Paris Goal, the most ambitious scenarios available from the International Energy Agency are used to calculate the company pathways. The methodologies include indicators that align with the information disclosed by companies using Carbon Disclosure Project (CDP), Global Reporting Initiative (GRI) and the Sustainability Accounting Standards Board (SASB). They also show alignment with and support the objectives of the recommendations made by the Task Force on Climate-related Financial Disclosures (TCFD). The benchmark tracks 450 keystone companies in the highest emitting sectors, identified through extensive consultation and research, including on the industry groups included in the TCFD recommendations. It includes companies from the automotive manufacturing, electric utilities, oil and gas, transport, real estate, cement, metals and mining and heavy machinery sectors. These sectors are selected because they all have a role to play: if one industry does not deliver its fair share, others have to make up for that deficit. For example, electrification of different industries is only contributing to the transformation if the energy sources are clean. To date, the Climate and Energy Benchmark has produced industry-specific benchmarks, showing where keystone [automotive manufacturers](#) and [electricity generation companies](#) are in terms of significantly reducing the world's dependency on carbon-based energy. In 2021, WBA's Oil and Gas Benchmark will use ACT assessments to rank 100 keystone oil and gas companies.

**FIGURE 5: INTEGRATING SOCIAL ASSESSMENTS INTO THE DECARBONISATION AND ENERGY TRANSFORMATION**



To embed the ‘leave no one behind’ principle in the Climate and Energy Benchmark, we will include WBA’s core social indicators, as well as a set of just transition indicators, in the company assessments. The just transition sits between the need to decarbonise and transform our energy system and provide universal access to sustainable energy and the need to achieve this in a way that leaves no one behind. Incorporating the principles of a just transition is integral to managing the risks and negative impacts on society that occur with transformational change. Together with the ACT low-carbon assessments, these indicators will enable us to produce assessments of high-emitting companies’ contributions to a just decarbonisation and energy transition.

## Systems insights

The results of the Automotive and Electric Utilities Benchmarks show that both sectors are not on track to meet the goals of the Paris Agreement and could be doing a lot more to contribute to the transformation. While Western countries are largely on track to meet their emission reduction targets, a significant part of production of high-emitting sectors is outsourced to developing countries, thereby also “outsourcing” their carbon emissions. This is happening at a company level as well, and decarbonisation requires that companies dismantle and replace their polluting assets for newer and cleaner means of production instead of outsourcing or selling them off. For example, if an electric utility company is investing in renewables at the expense of gas installed capacity, rather than dismantling



from coal, this is not substantially contributing to decarbonisation of the energy system. A well-planned and Paris-aligned approach to transitioning away from fossil fuels is also vital for a just transition: workers can directly re-train for green and decent jobs and low-carbon, climate resilient infrastructure can be built and invested in.

The energy and decarbonisation transformation is a highly macro-economic, politicised field. The system in which companies operate is complex, with companies sometimes having less influence than attributed to them. Electric utilities, for example, often operate regionally or locally, and are highly dependent on regulation. Government policy is an important means of system change and corporate influence over the climate debate and policy progress has been cited as an important reason for the slow progress of national-level climate legislation and UN COP process [59]. Of the 50 electric utility companies benchmarked in 2020, 21 are either on the board of or provide funding (beyond membership) to trade associations that have climate-negative activities or positions. Moreover, it is common that utility companies do not disclose information on their memberships of trade associations. Auto manufacturers also have an opportunity to demonstrate climate leadership and drive sector-wide transition to the low-carbon economy through policy engagement but their performance is disappointingly poor. Twenty nine of the 30 automotive companies assessed by WBA in 2020 were found to be engaging with trade associations. Of these, more than half were found

to be on the board or providing more than traditional membership funding to trade associations with climate negative positions. Engaging with such associations could suggest indirect opposition to climate policies, regardless of a company's public climate rhetoric.

Climate adaptation is one of the themes that shows how interconnected issues across transformations and sectors are: urban areas are major contributors to climate change but at the same time represent high concentrations of infrastructure, financial and human assets and activities that are vulnerable to climate change impacts [60]. Financial support to developing countries is key to adapt their societies to a changing climate and its associated impacts, and while most of this will have to be met through public finance, private investment will be needed to close the adaptation finance gap. Although climate adaptation finance flows have increased in recent years, they still are insufficient to avoid severe economic and human impacts from climate change, particularly in developing countries [61]. We believe that the companies in scope of WBA benchmarks are subject to the physical risks of climate change and have a role to play in contributing to climate adaptation. Moving forward, we will explore how to assess these contributions in our Climate and Energy, Nature, Urban and Financial System Benchmarks.

## Automotive

In 2019, WBA launched the first iteration of the Automotive Benchmark, which measured the progress of 25 keystone companies in the sector towards the goals of the Paris Agreement. In 2020, we refreshed the results of this benchmark with a Performance Update and assessed the same 25 companies and five new ones in the sector on their progress towards low-carbon leadership and ambition. The results show that these companies are not on track to meet the goals of the Paris Agreement. While most companies have some transition plans or an existing low-carbon vehicle on the market, most are not yet doing enough to reduce emissions at the rate needed to meet the well below 2-degree pathway.

To make the necessary impact, the industry needs to lobby towards policy that supports a climate positive future, rapidly increase sales of low-carbon vehicles and have more ambitious transition plans. Two thirds of companies in the benchmark do not have publicly available in-use vehicle emission reduction targets with a meaningful timeframe. Amongst those who do, just half are sufficiently ambitious to meet their well below 2-degree pathway. Our research also finds that the sale of electric vehicles is not rising fast enough for the Paris goals. The combined low-carbon vehicle sales of the 30 automotive companies increased from 0.27% of total sales in 2014 to 2.29% in 2019. However, this is still far away from the 6.2% required in 2019 under the sector's well below 2-degree decarbonisation pathway. Combined with this, the benchmark shows that all but one of the companies realise over 90% of their sales from high emission vehicles while low-carbon vehicles



account for only 1% of sales annually for most companies. The research also finds that automotive companies are not using their influence to actively shift consumer choice away from high emission vehicles. Only half the companies benchmarked showed some discernible effort in this area. There is an industry-wide reluctance to publicly commit to a positive, transparent and proactive approach to climate policy. In fact, some companies actively lobby against climate-positive legislation.

## Electric utilities

WBA's second Climate and Energy Benchmark measures and ranks the world's 50 most influential electric utilities companies on their transition to a low-carbon economy. The sector is often described as the 'great enabler' of low-carbon energy. Electric utilities are an important nexus for cleaner energy across transport, real estate and industry more broadly. With electricity demand predicted to increase by nearly 80% by 2050, decarbonisation of electric utilities is thus critical for enabling change within and beyond the sector and powering the transition to a low-carbon economy. Although the sector has a global footprint through their emissions, many companies are operating regionally or nationally.

While there are encouraging examples of leadership, the benchmarked companies as a whole display a lack of ambition. The sector still has a strong fossil fuel dependency, with 35 of the 50 companies assessed already set to exceed their carbon budgets. The climate performance of 33 companies is expected to decline in the near term. Only four companies have set fully Paris-aligned emissions reduction targets; many of the targets of the remaining 46 are considered inadequate and unambitious. Without bold action, companies will fall further behind their decarbonisation pathways and their peers who do align with this agenda. While 42 of the 50 companies have a low-carbon transition plan or have made transition-planning commitments, closer examination shows insufficient action. Overall, companies are not implementing sufficiently resilient, long-term strategies to enable a successful low-carbon transition.

Companies must also increase the capacity of renewables in their generation mix. Despite the fast-improving economics of renewables, technological advances and favourable policy landscapes in certain markets, only some companies are replacing fossil fuels with renewables.

The low-carbon transition is shaking up the traditional electric utility business model and creating new opportunities. Increasingly stringent climate policy, falling technology costs, changing consumer demands and emerging market disruptors can energise the sector.



## Just transition

In the coming decades, emissions-intensive sectors face the major challenge of shifting to a low-carbon economy while upholding the central promise of the SDGs to leave no one behind. They will do this by paying attention to both the low-carbon transition and the social impacts that come with this and recognising the interlinkages between them. Demonstrating success in both areas is paramount to ensure a just transition. The purpose of the just transition indicators is to make that integration more explicit and to provide a roadmap of the steps companies can take to contribute to such a transition.

WBA has therefore analysed results from two of our benchmarks, the Climate and Energy Benchmark and Corporate Human Rights Benchmark (CHRB), to gain insight into the current state of companies' contributions to a spotlight area of the social transformation that is a key enabler of a just transition: respect for human rights. Thirty keystone companies were assessed in both the 2020 Automotive Performance Update and in the CHRB. This has allowed WBA to assess automotive companies' performance regarding their efforts to advance the low-carbon transition as well as respecting human rights.

When comparing the two benchmarks' Automotive assessments, the results are alarming. Almost no correlation could be found between the companies' relative performance on either benchmark, suggesting a disconnect between their disclosures as well as their actions on climate and human rights issues. Some companies that demonstrated action on climate issues such as low-carbon transition plans, emissions

reduction targets and climate change oversight, disclosed very little, if any, information on how they manage human rights, and vice versa. This lack of correlation suggests that many automotive manufacturers still consider climate and human rights issues separately, to be addressed independently of each other, despite the fact that they are increasingly recognised as interconnected. WBA's just transition assessments aim to highlight where further action is needed by companies to address these interrelated impacts.

## Access to energy and adapting to climate change

Providing universal access to modern energy services while significantly reducing dependency on carbon-based energy, as targeted by SDG 7 (affordable and clean energy), requires active involvement from the private sector. WBA is therefore exploring how to assess companies on their contributions to this aspect of the decarbonisation and energy transformation. We are also exploring how to assess and drive the private sector's contribution to climate change adaptation. This may sit across multiple WBA transformations.





The digital system transformation seeks *to achieve an inclusive, safe, and secure digital economy and society – one where people from all walks of life, in both developed and developing countries – are able to equitably share in the benefits of digital technology.*

## Why change is needed

The COVID-19 pandemic has underscored more than ever the power and potential of digital technologies. Where it is available, broadband connectivity has helped keep economies afloat in the face of quarantine and social distancing measures, by allowing parts of the labour force to continue working remotely and students to continue their learning online. The exponential growth in e-commerce has created new jobs and income earning opportunities which have the potential to lift people out of poverty and increase resilience of rural communities [62]. In exemplary cases, digital technology is literally saving lives. For example, telemedicine is allowing those who are isolated to access advice from healthcare workers while 3D printing shows promise as a speedy solution to the shortage of medical ventilators. Finally, the internet has allowed us to maintain virtual connection to one another, to share our grief, our collective uncertainty and our hopes for solidarity. In contrast to many other systems, the pandemic has without doubt accelerated the process of digitalisation by several years [63] and as more people are growing used to relying on digital solutions, they are expected to be used to greater extent than before the crisis [64].

## Digital system transformation

However, a large part of the world is still excluded from the digital economy and its benefits, with the adverse consequences of the COVID-19 pandemic felt hardest by those marginalised due to existing social inequalities. As physical restrictions set in across the globe, those without access cannot obtain information, access to healthcare, make payments or participate in educational activities. According to UN Secretary-General António Guterres “leaving no one behind means leaving no one offline” [65]. However, only half of the global population is estimated to be using the internet, leaving around 3.7 billion people offline [66]. The proportion of women using the internet is also lower compared to men, with the gender gap growing rather than shrinking [66]. Not all countries and regions can easily harness big data, with Africa and Latin America, for instance, accounting for only 5% of the world’s data centres [67]. Least developed countries are behind on even basic digital skills, with less than a quarter of their people reported to have such skills compared to more than three quarters in developed countries [68]. The vast majority of the ICT ecosystem is centred in two countries, the US and China, with developing countries, other than China, particularly excluded. Adoption of new technologies, such as 5G, the internet of things and artificial intelligence (AI), is occurring much faster in developed versus developing countries and technical expertise is still highly concentrated in a handful of countries, with limited gender and racial diversity [69].

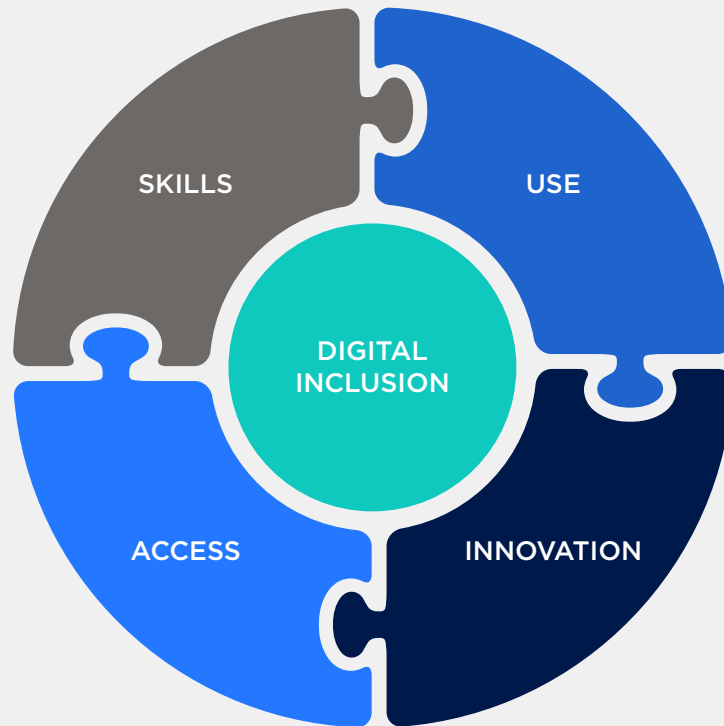
The global pandemic has highlighted the urgency of digital inclusion, as we increasingly rely on digital technologies to stay connected, purchase daily necessities and access healthcare and education. However, this accelerated digitalisation is accompanied by widening digital divides that lock billions of people out of the digital economy and threaten progress on the SDGs. If left unaddressed, the growing gap between under-connected and hyper-digitalised communities will widen, thereby exacerbating existing inequalities [64]. Furthermore, trust in technology is fraying as citizens and governments become aware of the risks and harms of its unexamined and unrestrained applications.

### How WBA is accelerating systems change

Digital inclusion can be viewed as both a means to a desired end and a desirable end in itself. As a mechanism, digital inclusion helps to ensure that individuals have an equal opportunity in employing digital technology for personal and social betterment. As for the end goal, global equity requires that everyone enjoys this technology and participates fully in the information society. The Digital Inclusion Benchmark provides a framework for assessing the contribution of companies across the ICT industry to an inclusive, safe and secure digital economy and society, in which the benefits are equitably shared. The benchmark ranks the world’s most influential technology companies on four areas of digital inclusion:



FIGURE 6: DIGITAL INCLUSION MEASUREMENT AREAS



- 1 Enhancing universal access to digital technologies
- 2 Improving all levels of digital skills
- 3 Fostering trustworthy use by mitigating risks and harms
- 4 Innovating openly, inclusively and ethically

These four areas can be envisioned as a set of interrelated actions for achieving digital inclusion. Each faces challenges where stakeholders expect action and where digital companies can have significant impact. The measurement areas are linked in the way they support sustainable digital inclusion and that they are applicable to companies across the digital sectors. Access is the starting point; without access people cannot use digital technologies. Skills are then needed to benefit from this access. The extent of use is impacted by many factors, trust being one of the most critical. Advanced skills and use help to trigger innovation, leading to new ways of applying digital technology. Sustainable digital inclusion refers to a society with a high level of access to digital products, with the skills to use digital products safely for personal, social and economic gain, with the opportunities to create innovative digital products and with all these activities carried out in an ethical and sustainable manner.

# Digital system transformation

The companies included in the benchmark span across the entire digital value chain. Some manufacture equipment, some provide telecommunication services, some offer information technology (IT) or ICT-enabled services while others carry out two or more of these activities. These companies often interact with each other throughout their value chain. For example, a cell phone has a hardware component but also needs connectivity. For purposes of the benchmark, the companies are 'layered' into three broad categories:

1. Hardware, consisting of the manufacture of digital goods such as end-user devices, network equipment and semiconductors.
2. Telecommunication services.
3. IT services, consisting of software applications, data centres, cloud computing and platform services.

## Systems insights

The digital transformation has been greatly accelerated by the COVID-19 pandemic [20] and changes in behaviour are likely to have lasting effects [64]. In response to the crisis, countries that can afford it have invested heavily in the rollout of digital technologies and services [20]. This fast-paced shift towards digitalisation is likely to strengthen the position of a few mega-digital platforms, mainly originating in the US and China [64].

We are still in the early days of coming to an awareness about the consequences of digitalisation. We have some understanding around individual topics such as digital divides, digital rights and cybersecurity. But the discourse is not yet at the level of "system change". Our first Digital Inclusion Benchmark published in 2020, assessed 100 keystone technology companies. The results shows that digital companies worldwide worked to improve the accessibility of their services as a result of the pandemic. Notably, many of the telecommunications companies in the benchmark offered customers free data, reduced or waived tariffs or provided free access to online health information. Some companies adopted a different focus by boosting the connectivity of health facilities and supporting medical workers. COVID-19 resulted in an unprecedented rise in telecommunications traffic largely due to giant increases in video use. Companies responded with initiatives to monitor and optimise capacity. If some of these measures are sustained post-pandemic, they could help to boost digital access for vulnerable groups. The speed at which interventions took place also suggest that digital companies have the resources and capacity to quickly improve connections for the unconnected.



# Digital system transformation

The results of the benchmark further show that commitment and contribution towards digital inclusion is highly uneven across industries in the digital sector, themes and markets of operation. Particularly, software and IT services companies are lagging behind hardware and telecommunication providers. While a few leading companies comprehensively demonstrate best practices, most have yet to embrace digital inclusion as a core responsibility. The development of basic digital literacy programs is a particular area on which the digital sector needs to focus in order to leave no one behind in a digital world. Further research by WBA shows that many activities of companies that enhance access are focused on their largest market of operation, often China and the US.

We are still in the early days of coming to an awareness about the consequences of digitalisation. While digital technologies do much to benefit the world, they also pose risks such as the loss of jobs, insecure employment and the spread of false information, whilst the rise of AI and automation raise concerns about potential harms related to fairness, bias and agency, to name a few. Ethical issues arising from the deployment of AI and disruptive technologies need urgent attention.







The nature and biodiversity transformation seeks to *secure a nature-positive future for humanity within our planetary boundaries that leaves no one behind*.

In the 2019 systems transformations paper, we identified the circular transformation as one of the systems that needed to be transformed. Over the last two years we have come to recognise the need for greater understanding, transparency and scrutiny of business impact on nature and biodiversity. This goes beyond circular strategies to achieve resource decoupling and requires actions to transform value chains and advance biodiversity both within and beyond businesses' own footprint [70]. Focusing on nature stewardship allows for more attention on the impact, rather than the means, and aligns better with the work others are undertaking to improve business' impact on nature. Therefore, in response to feedback from stakeholders, WBA has decided to expand the focus of this transformation from circular to nature and biodiversity. The way in which companies move from linear to circular production will continue to be one of the focus areas of the transformation.

## Why change is needed

The emergence of COVID-19 has shown that when we destroy biodiversity, we destroy the very system that supports human life on Earth. The richer the biodiversity in an ecosystem, the more difficult it is for a pathogen to spread rapidly or dominate. Loss of biodiversity creates opportunities for pathogens to pass between people and animals, as demonstrated well by COVID-19 [71]. The risk of pandemics is rising rapidly and is driven by unsustainable exploitation of the environment as a result of land-use change, wildlife trade and consumption, agricultural expansion and intensification. Such actions disrupt natural interaction among wildlife and their microbes and increases contact among wildlife, people, livestock and their pathogens. This has caused almost all pandemics [72].

Climate change and biodiversity loss are considered today's most pressing global challenges and represent an existential threat to humanity [73]. They are mutually reinforcing: climate change accelerates ecosystem degradation, which in turn increases the release of carbon in the atmosphere and reduces carbon sequestration [70]. It is estimated that natural ecosystems sequester as much as one-third of global GHG emissions annually [74].

According to the World Economic Forum's 2021 Global Risk Report, biodiversity loss ranks third in terms of existential threats, behind weapons of mass destruction and state collapse [75]. Biodiversity underpins current and future human health, well-being and economic prosperity [16]. Ecosystem services, the goods and services that

biodiversity provides, include vital necessities that we fundamentally depend on such as food provision, air quality, climate regulation and the regulation of water supply and quality. They underpin all economic activity in our societies and it is estimated that over half of global gross domestic product (GDP) is dependent on biodiversity and ecosystem services [76]. When looking at the economic value that ecosystem services provide, they are worth more than USD 150 trillion annually, about twice the world's GDP [70]. Yet, our patterns of economic growth, development, production and consumption are pushing the Earth's life-support systems beyond their natural boundaries [73]. We have now arrived at a point where demands we make of nature's goods and services far exceed its ability to meet them in a sustainable way. If they continue to be overused, we risk ecosystems tipping over and collapsing [77], leading to losses of USD 9.87 trillion in real GDP by 2050 [78]. It is estimated that already one-fifth of countries globally are at risk from ecosystem collapse as biodiversity declines [76].

Scientists warn that the ongoing sixth mass extinction may be a tipping point for the collapse of civilisation [79]. Mainly due to human activities, species are becoming extinct at a much higher rate than in the past. Research shows that about 25% of plant and animal species assessed are threatened by human actions, with a million species facing extinction, many within decades [80]. Research also warns of a domino effect with the loss of one species resulting in the loss of others that depend on it [79]. These continued species extinctions will have irreparable effects on nature.

The main drivers of the global change in nature include changes in land and sea use, direct exploitation of organisms, climate change, pollution and the invasion of alien species. These in turn result from different underlying causes, the indirect drivers, which are underpinned by societal values and behaviours that include production and consumption patterns, human population growth, trade, technological innovations and governance [80].

According to the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES), biodiversity goals can only be achieved through transformative change, requiring fundamental changes in consumption and production patterns [80].

## How WBA is accelerating systems change

Businesses engage in activities that both impact and depend upon nature. The impact of companies on biodiversity and ecosystems depends on their physical relationship with nature, which is mostly determined by their position in their respective value chain [81]. In particular, activities related to resource extraction and cultivation contribute to the loss of biodiversity [70]. According to a study by the Boston Consulting Group, more than 90% of man-made pressure on biodiversity can be linked to four major value chains: food, energy, infrastructure and fashion [70]. Addressing the nature crisis requires a critical shift towards nature-positive models in three key socio-economic systems: food, land and ocean use; infrastructure and the built environment; extractives and energy [23].

While the biodiversity crisis is gaining traction in the private sector, a big gap in knowledge and action on biodiversity currently exists [82]. Out of the 2,000 companies included in our SDG2000, just over half (1,091) mention biodiversity in their corporate communications. Research on a sample of Dutch companies shows that until now most companies see biodiversity and natural capital issues in a reactive way, as a defensive response to external triggers coming from actors like consumers, financial institutions and civil society organisations [83]. Pressure on companies to address their impacts on biodiversity are rising now as investors are starting to focus on biodiversity as a material issue and financial regulators increasingly incorporate biodiversity indicators into reporting requirements. The private sector, as key driver of many environmental pressures, has an important role in reversing the drivers of biodiversity loss and in bringing investments, resources, skills, technology and innovation in order to tackle the problems [84]. WBA recognises that there is momentum for greater understanding, transparency and scrutiny of business impact on nature and biodiversity. We envision the Nature Benchmark offering unique value as an accountability mechanism – providing policymakers, civil society, investors and the companies themselves with data and evidence to understand the crisis and the role that companies play better and collectively steer nature-positive impacts. The benchmark assessments will measure and track corporate performance towards a nature-positive future by measuring how companies are reducing their impact and even regenerating ecosystems.



Currently, companies' direct impact on biodiversity is mostly assessed at site level, particularly for large industrial or infrastructure projects. However, these impact assessments are highly dependent on regulatory frameworks and national legislation, which are globally fragmented. In addition, this work is not consolidated at group or parent-company level or aggregated in public reporting. Finally, several industries, particular in the food and agriculture value chain, experience major traceability issues that evade biodiversity-protecting actions, such as programmes to prevent deforestation or illegal fishing.

Companies need the right framework, methodology and incentives to consolidate the nature-related datasets they currently possess and further establish baselines and targets in a forward-looking manner. In this context, WBA is currently working alongside several well-established non-profit organisations linked to the Global Commons Alliance that are already developing biodiversity-related metrics. While the development and wide adoption of novel metrics and indicators on biodiversity will take time, WBA will work on establishing a high-level benchmark based on existing indicators. This will bring an understanding of both where the gaps are and where further metrics need to be developed as well as which industries and value chains have a relatively advanced holistic understanding of their nature impact and ultimately which lag behind and need further push and scrutiny. Within each industry and value chain, WBA will highlight best practices and further encourage a wider adoption of them.

## System insights

Methodology development for the Nature Benchmark has not started yet and therefore we have limited insights into how companies are currently contributing to or hampering the transformation. The nature and biodiversity transformation is strongly linked to the decarbonisation and energy transformation as climate change is responsible for 11-16% of biodiversity loss [80]. However, decarbonising our energy system is not enough to halt biodiversity loss and safeguard nature – we need to also address the other drivers of nature loss [23]. The transformation is also strongly linked to the food and agriculture transformation as biodiversity is both critically important to the food value chain, yet food accounts for more than 50% of man-made pressure on biodiversity [70].

Regarding the business impact on ocean ecosystems, WBA has gained meaningful insights on how companies disclose their mitigation activities on target fisheries and endangered species for instance through the Seafood Stewardship Index. Through the Food and Agriculture Benchmark, WBA is currently gathering knowledge of the company impact of the food and agriculture value chain, particularly on high-risk commodities and land use, water and climate. Therefore, WBA will already be able to identify some critical shortcomings and highlight best practices on nature in September 2021.



The urban transformation seeks *to create sustainable and inclusive cities that are safe, resilient, liveable and environmentally friendly*.

## Why change is needed

Urban areas have been called ‘the ground zero’ of the COVID-19 pandemic, with 90% of reported cases taking place in cities [85]. The high concentration of people and economic activities, including their high level of global and local interconnectedness, make them particularly vulnerable to the spread of pathogens, such as the coronavirus [86]. More than half of the world’s population live in cities [87], with about 2.6 billion people currently living in metropolitan areas [88]. By 2050, about two-thirds are predicted to live in urban settlements [89]. The pandemic has deepened long-standing inequities in cities. Particularly, urban dwellers that work in the informal sector are part of the growing number of “new poor” created by the pandemic, in addition to other vulnerable groups that live in crowded urban areas with limited means to social distancing or handwashing facilities [90]. Currently, about 1.6 billion people, or 20% of the world population, live in inadequate housing, of which 1 billion reside in informal settlements and slums [91]. It is becoming increasingly clear that urban density is not itself a decisive factor in the transmission of the virus. Rather, key determinants include inequality, inadequate housing, and lack of access to clean water, sanitation and waste management [92]. Managing and containing COVID-19 therefore means the underlying causes of exclusion and inequality in cities need to be addressed [92]. As 90% of urban growth is expected to happen in Asia and Africa in the next 30 years [89], particular attention needs to be devoted to cities in these regions.

Beyond an inclusive recovery, the recovery must also be green. Cities are a key contributor to climate change. It is estimated that cities occupy just 3% of the Earth's land but consume about 60-80% of the global energy supply [93] and are responsible for 75% of global CO<sub>2</sub> emissions, with transport and buildings being among the largest contributors. On the other hand, the effects of climate change severely impact urban life. Rising sea levels, more extreme weather events such as floods, droughts and storms and increases in the spread of tropical diseases will have costly impacts on cities' basic services, infrastructure, housing, health and livelihoods [94]. Almost three quarters of cities are already dealing with the effects of climate change and nearly all are at risk [95]. Over 90% of urban areas are coastal, putting most cities at risk of flooding due to rising sea levels and storms [95].

Not surprisingly, sustainable, resilient cities were able to handle the pandemic better [90]. It is expected that COVID-19 will have a profound impact on urban planning, which has traditionally relied on the relative predictability of how people use spaces [10]. People are redefining their sense of place and are transforming their behaviour, particularly as more people work from home. The pandemic is also expected to fundamentally change how cities are managed and governed [96].

## How WBA is accelerating systems transformation

WBA has begun exploring this system but not yet scoped the benchmark for this transformation. Our thinking is therefore likely to evolve over time and we would welcome input from Allies and others in helping us develop this. Whereas local and national governments are key actors, involvement of the private sector is increasingly required for building cities that are inclusive, safe, resilient, liveable and environmentally friendly. The private sector plays a role in urban governance and has an influence on whether urban areas develop in inclusive and sustainable ways [97]. In fact, cities are more reliant than ever on private sector support to scope, finance and deliver projects [98]. However, when we take a closer look at the companies included in our SDG2000, we find that only 163 companies reference SDG 11 (sustainable cities and communities) in their corporate communications.

In the urban context, public-private partnerships are particularly important as they offer the unique opportunity to provide public assets or services whereby the company bears the risk and management responsibility, and remuneration is linked to performance [97]. Public-private-partnerships enable the integration of the private sector's know-how and financial means into the provision of public services [99]. Financing is particularly important as it is often the missing link between planning and implementation [100]. In addition, whereas the provision of sufficient, affordable and quality basic services is considered a core function of city or municipal governments [101], cities are increasingly dependent upon the private sector for urban service delivery. As cities have limited resources, the private sector can contribute with innovation and efficiency [102].



With global population growth and urbanisation, an enormous increase in urban infrastructure will be needed. In 2015, only 25% of global urban infrastructure that will exist in 2050 had been built, [103]. The outstanding 75% provides a significant opportunity for the private sector as public sector fiscal resources rarely meet the full investment need [98]. The range of infrastructure that cities in developing countries particularly need to develop is vast, including housing, roads, water and sanitation, transport, solid waste disposal and electricity which all need to be future proof. The quality of a city's infrastructure defines whether a city can accommodate rapid population growth and sustain high economic growth, but it also influences social inclusion, economic opportunity and quality of life [97]. Beyond inclusive infrastructure, there is particular need for infrastructure that is low-carbon and climate resilient [98]. Despite the growing importance of private sector participation in urban development, there is limited clarity on how the private sector can step up its efforts and which sectors are most influential in transforming cities. More guidance is needed to inform, inspire and catalyse action from the private sector in cities. We believe a benchmark can play an important role in creating clarity around cities' and stakeholders' needs and creating accountability for the private sector's role in transforming cities.

## Systems insights

Scoping for the benchmark focused on the urban transformation has not started yet and therefore we have limited insights into how companies are contributing or hampering the transformation. In contrast to the other systems transformations, the urban transformation has a very strong spatial dimension. Challenges differ from city to city making it more difficult to identify sectors and companies that are vital for the transformation. We therefore believe we need to take a bottom-up approach during our scoping phase, starting at the city level to identify the most influential companies for this transformation.

This transformation is strongly linked to several of the other transformations. As two thirds of global CO<sub>2</sub> emissions comes from cities, it is strongly linked to the decarbonisation and energy transformation. Shopping malls, cars, buses, air conditioners and high-rise buildings all consume vast amounts of energy. Additional rapid urbanisation and infrastructure build may further negatively impact the environment if principles of green expansion and durability are not applied. If we want to achieve the goals of the Paris Agreement, action in cities will be vital. However, mitigation and adaptation need to go hand in hand in cities, just as in a broader just transition. Driven by the increasing risk of rising global temperatures and the density of people, assets and economic activities, climate change adaptation is vital for cities. Cooperation between business and city governments can contribute to building climate resilience. Companies can help reduce citywide risks by embedding local adaptation needs within their business operations [104].

# Urban transformation

The urban transformation is also strongly linked to the digital system transformation as ICT offers innovative approaches to managing cities more effectively and efficiently. Increasingly, cities are becoming 'smart', using data to manage traffic and transport systems, reducing energy usage, improving safety, urban services and operations. Digital technologies provide opportunities to develop more intelligent and inclusive urban systems where waste, costs and ecological impact are minimised and where urban operations and processes can enhance the quality of life [105].

In order to achieve progress on the social transformation, it is key that the urgent needs of vulnerable groups in urban settlements are considered. Many of the 'new poor' will be living in cities, mostly working in the informal sector [106]. This makes transforming cities key to leaving no one behind.







The financial system transformation seeks to *ensure that the financial system enables a more sustainable allocation of resources and a more accurate representation of risks and opportunities, in line with planetary boundaries and social conventions.*

## Why change is needed

The COVID-19 pandemic has posed the biggest test to the resilience of the global financial system since the 2008 global financial crisis [107]. It has exposed the pre-existing vulnerabilities and inequalities in the financial system and global economy [3]. The health crisis disrupting global trade and financial flows has brought to the fore the systemic and interlinked nature of risk in an interconnected world. Even before COVID-19, estimates put the cost of financing the SDGs at between USD 5 trillion and USD 7 trillion annually with half of that amount, or approximately 3% of gross domestic product (GDP), needing to come from private capital [108]. The pandemic has exacerbated the SDG financing gap. More recent estimates suggest that merely recovering from the pandemic and its impacts could cost at least 10% of global GDP. Financing for sustainable development is at risk of collapse, with resources normally available to developing countries under stress [109]. It is clear that this challenge goes beyond an SDG funding gap. The pandemic has also made real the risk to financial institutions, and by extension the economy, people and planet, of economic volatility, persistent short-termism in markets and misalignment with societal expectations.



# Financial system transformation

A multi-year inquiry led by the United Nations Environment Programme Finance Initiative (UNEP FI) concluded that the purpose of the financial system “is to serve the needs of society by facilitating payments, aggregating, protecting and allocating savings to the most productive uses, and managing risk in ways which support an inclusive and sustainable real economy” [110]. But today’s financial system seems designed more towards maximising financial value, confusing the means (financial activity) with the ends (society’s needs). This is illustrated by the fact that less than half of total assets of the large global banks go to lending to the real economy [83].

The financial system must undergo its own transformation in order to fully enable the other six systems’ transformations. If we are to live equitably and sustainably on this planet, the financial system must urgently move beyond short-termism and an incremental risk mitigation approach, to instead deploy an ‘impact lens’ aimed at minimising harm and maximising benefits. This transformed system will also have a greater appreciation of its global impacts, as decisions taken in Tokyo, London, Singapore or New York have far-reaching and far-flung implications, arguably more than in any other system.

## How WBA is accelerating systems change

The financial system is often seen as opaque and complex and we are far from having a comprehensive picture of how the financial system will help to address the systemic risks posed by climate change, biodiversity loss and rising inequality. Individually, let alone collectively, these risks pose an existential threat to people and the planet. They also pose an existential threat to the financial institutions that drive and shape – negatively and positively, in intended and unintended ways – the economy as well as people and the planet by extension.

The Financial System Transformation Benchmark aims to incentivise financial institutions to operate sustainably, within planetary boundaries and societal conventions, defined in internationally defined global goals such as the SDGs and the Paris Agreement. Living within the means of our planet and leaving no one behind requires that economic activity respects natural resource limitations and social norms. This means transforming how the financial system operates. Today, economic activity, driven and shaped by the financial system, is contributing to breaches of global environmental and societal conventions. Such a transformation requires many changes. Financial institutions need to acknowledge and act on their impact on people and the planet – direct and indirect, positive and negative, intended and unintended – with that impact defined relative to the global goals. This calls for a significant shift in the quality and comparability of evidence of financial institutions’ commitments, activities and performance so that:

# Financial system transformation

- Financial institutions acting as intermediaries in the system can better measure and manage their environmental and social performance.
- Users of the system can make better informed financial choices – whether as owners of capital (individual savers, pension fund holders and citizens on whose money the system is leveraged) or as individuals, households, corporations and governments seeking financial products and services.
- Policymakers, regulators and supervisory bodies can better address the negative externalities that are costing us heavily, incentivising and penalising system participants through fiscal policy and other mechanisms.

## Systems insights

The Financial System Benchmark focuses on the world's 400 most influential financial institutions. These institutions operate across the financial value chain and include asset owners, asset managers, insurance companies and banks. As opposed to other systems, financial institutions in this transformation have an intermediary and facilitating role. Although the different elements of the financial system represent distinct industries, they are often heavily interconnected. Asset owners entrust asset managers with the management of assets. Asset owners also invest in banks and insurance companies, which – as well as receiving deposits and insurance premiums (respectively) to help manage and mitigate risk – aggregate these resources and finance the economy. Furthermore, insurance companies insure assets and companies in which investors invest and to which banks lend.

This interconnectedness means that risks and impacts also flow throughout the system. It creates a responsibility for financial institutions to hold each other accountable, either because of the fiduciary duty to their beneficiaries or to avoid potential loss of trust and credibility among their clients (and the ensuing outflow of capital). Given their significant impact on the economy, people and the planet, this responsibility extends beyond direct clients. It is one of the reasons financial markets are so heavily regulated, as one of the few with institutions deemed 'too big to fail' to the extent that they are subject to additional supervisory requirement. Being so interconnected also means that focusing on individual activities by keystone actors within the system is not going to bring about the required change; any system transformation requires a holistic view.

This interconnectedness influences other systems and keystone actors: in order to enable and accelerate the other transformations, core financial activities such as lending, investing and underwriting need to take into consideration longer-term outcomes, prioritising inclusive and sustainable development impact.

## Financial system transformation

At present, the financial system is not enabling a global economy that operates sustainably. The net effect of this is increasingly obvious in terms of climate change, biodiversity loss and rising inequality. Although the financial system is a fundamental driver of the existing economy and the transformations we need, in reality “we have no idea how much financing is contributing to good and how much to greater inequalities and unsustainable ends” [111]. A recent report by the OECD found that trillions of dollars in financial assets held by asset managers, banks and institutional investors are contributing to growing inequalities and lack accountability for their sustainability impact [111]. Other research shows that in the five years since the Paris Agreement, the fossil fuel financing of the world’s largest commercial banks reached USD 23.8 trillion [112].

Despite increasing interest in responsible investment practices across the industry, the majority (over 90%) of capital flows do not self-identify as responsible or sustainable [111]. Moreover, those that are considered responsible or sustainable lack a common denominator against which progress can be assessed (namely, the planetary and societal needs defined in the SDGs) and which remain urgent and stark. Enormous amounts of capital remain committed to economic activities that have been known for years to be destructive.





# Conclusion

COVID-19 has laid bare the flaws of our current systems: healthcare systems are failing, inequality is deepening and the environment is degrading rapidly. It has illuminated the interconnectedness of the issues and actors within and between systems. By highlighting our vulnerability to external shocks – cascading tragic consequences across national boundaries – COVID-19 has put systems thinking firmly back on the agenda.

When we look towards the 2030 Agenda, we have barely eight years left to deliver the transformations we need to see. Although the pandemic has set us back, it is also a chance to reassess how we look at the world, diagnose its problems anew and seek faster and more impactful solutions.

The COVID-19 pandemic has created a strong sense of urgency for change. More than ever, the pandemic has made us realise that current trajectories are unsustainable and are damaging the environment, creating social and economic inequalities and posing risks to public health. However, the pandemic has also shown us that it is possible to swiftly adjust our behaviour and change habits. This immense crisis gives an opportunity to build back better. And the SDGs can guide the world in the recovery from COVID-19, using the goals as a shared global framework for meeting essential social, environmental and economic objectives [113].

# Conclusion

However, we should not be naive about change. Systems only change when the components, structures and people that cause the system to behave in a certain way alter their dynamics. However, the pandemic has not fundamentally altered relationships between different aspects of the systems. This makes it unlikely that systems will suddenly change towards more sustainable and equitable outcomes and goals. For change to happen we need to focus on the relationships between different parts of the systems. Business is often a key part of the systems we need to transform. Engaging the corporate and financial sector in system change can be considered a high leverage short-term system change strategy [114]. Companies have ever-increasing influence, work with millions of suppliers, and provide products and services that allow us to live better lives, but are also the biggest polluters, drive environmental degradation, treat many workers appallingly and influence policy in underhand ways. We should not assume that COVID-19 eliminates the negative impacts that business has or that it will fundamentally change business models in favour of the SDGs. For real system change we cannot continue to cherry pick which SDGs to address. We must think more holistically about the role of business in addressing today's and tomorrow's problems. And we need to ensure that companies, but also governments, civil society and investors, are accountable for the changes that need to happen in order to achieve the SDGs.

By acting together with our Allies, WBA is creating a global accountability mechanism that drives engagement and implementation of the SDGs by the private sector. By joining in concert with investors, policymakers, civil society and citizens we hope to accelerate the transformation, amplifying the changes we each create. Whilst we must not be driven by naivety, we can allow ourselves to be optimistic about the potential ahead. Systems thinking provides the bedrock to this movement but also recognises its unlimited potential.

We believe that a systems approach is absolutely fundamental to engendering a faster transformation. It defines the lens of our benchmarking ambition: to make data publicly available on 2,000 keystone companies across seven dynamic and interconnected systems. But it also inspires us as a method for building a movement. By setting a system we can change the system.

# How to get involved

If you have any specific questions or ideas about the seven systems transformations or this report, please contact Lisanne Urlings at [l.urlings@worldbenchmarkingalliance.org](mailto:l.urlings@worldbenchmarkingalliance.org). If you have questions or would like to be involved in one of the benchmarks, please contact the Benchmark Leads below.

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