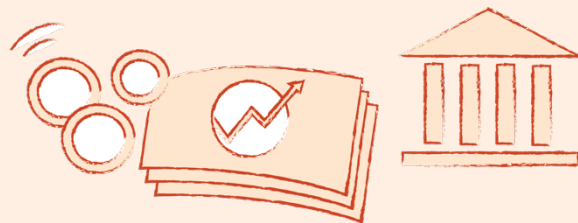
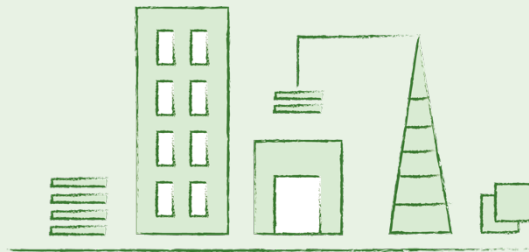


# Systems Baseline for the Laudes Foundation's Theory of Change

Final Report, by Future Impacts, in cooperation with 4CF, 2021



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## Executive Summary

Laudes Foundation, launched in 2020, has a mission to “support brave action to inspire and challenge industry to harness its power for good”. Following a consultative process to develop a strategy, systems map, and Theory of Change (published in 2021), Laudes Foundation’s first step in putting its Theory of Change to work was to undertake a baseline assessment. The focus of that assessment, presented in this report, was on the current status of efforts to tackle the crises in climate and inequality in fashion, finance and capital markets, and the built environment industries.

The Laudes Foundation rubrics, described in the Theory of Change, were the yardstick for the assessment. The rubrics take a measurement and learning approach to analysis and provide a framework and standard that creates a shared language for what ‘good’ looks like. Each rubric is rated on a scale from ‘harmful’ to ‘thrivable’. This assessment focused on the rubrics related to the outcomes to be achieved by 2025 and the impacts to be achieved by 2030.

In delivering the baseline assessment, Future Impacts and 4CF systematically captured and triangulated evidence using a literature review and three real-time Delphi surveys, one for each focus area. The initial results were then challenged and refined via an expert workshop and additional expert interviews. The resulting status assessments presented in this report, therefore, are as robust as possible within the confines of the approach.

The findings presented in this report are intended to enable discussion and reflection and to be used to devise levers for “moving the needle” in the desired direction. The findings will inform the foundation’s operational and strategic planning, its annual learning and adaptation process, and will serve as a reference point to monitor and evaluate systems change across programmes.

### Overall Finding: An Unconductive Status Quo

**The status of the Laudes system is assessed as ‘unconductive’ for all four 2025 Outcomes (C rubrics) and for all four 2030 Impacts (D rubrics). While progress is visible across the three areas assessed, and positive examples and signals were detected, the situation is still barely survivable, causing stress and other environmental and health problems, as progress remains too slow and systemic issues persist.**

The overall assessment, based on the sum of the assessments for the three focus areas, is clear: The situation, while no longer ‘harmful’ – which likely was the case until recently – is assessed as ‘unconductive’. To put it simply: There is progress but not enough to achieve the aims outlined by Laudes Foundation.

There are manifold examples of positive signals of change in each of the three focus areas. It is clear, though, that this is not yet sufficient, and a multitude of challenges and unresolved issues remain. These must be addressed before real progress can be made in improving climate and equality practices across the Laudes system.

Given the complexity of the issues involved and the scale of the step change needed, large-scale radical efforts will be necessary to deliver the required changes. Actions will need to be implemented rapidly and at scale to stand a chance of making a real impact within the given timeline.

## Findings for the Fashion Industry

**The majority of rubrics for the fashion industry were rated as ‘unconducive’, reflecting very limited progress on introducing effective legislation, policies and practices that would bring about climate positivity, and greater equity and inclusion. The fact that both concerns are now on the agenda, however, has moved the industry beyond the rating of ‘harmful’.**

Some businesses appear to have begun to recognise equity and inclusion as a key concern, but other stakeholder groups (policymakers, financial markets, and workers, producers and communities) have a lot to do to translate fledgling insights into a robust system of legal obligations and sanctions and appropriate systems to redirect financial flows accordingly, and genuinely hand power and rights to workers, producers (including farmers) and communities.

With regard to climate positivity, there are early signs that harmful processes and practices are being recognised, but very little progress has been made in addressing those issue among the four main stakeholder groups.

## Findings for Finance and Capital Markets

**Most rubrics for finance and capital markets were rated as ‘unconducive’ suggesting that real breakthroughs on comprehensive and coherent policy, substantial regulatory measures, and transparency and accountability are still some way off. First signs of supportive practices and regulatory intent towards more transparency, combined with some investment redirected towards more sustainable initiatives, resulted in a rating that was better than ‘harmful’.**

There are early signs of a shift towards more effective use of metrics, incentives and investments to catalyse climate-positive practices. However, the broader legal and economic system continues to direct financial flows primarily in line with conventional profit motives. The scope for community experimentation with new economic approaches that can be scaled up or fed into policy, regulatory, and business processes is limited so far. Moreover, change in the real economy remains contested in political debates, for example, regarding the extent to which markets can be ‘distorted’.

A potential threat from the erosion of EU Member State political mandates notwithstanding, growing interest among decision-makers within the finance and capital markets and low interest rates, combined with a potential window of opportunity to disrupt the status quo post COVID-19, may create opportunities for change. However, a shift in focus towards a just transition and a more sustainable economy will depend on a change in bigger picture economic and social policy choices that govern industries and states. Notably, digital currencies are a possible disruptive element with the potential to undermine existing policy and regulatory frameworks.

## Findings for the Built Environment Industry

**The rubrics for the built environment industry are consistently rated as ‘unconducive’. This reflects considerable systemic inertia in moving beyond short-term profit motives, itself the result of ineffectual industry standards and limited legislative efforts to regulate for better performance. Evidence of voluntary standards and growing traction for certification schemes, as well as development of frameworks to guide further activity, allowed for a rating above ‘harmful’.**

Neither climate-positive practices, nor equity and inclusion have progressed much towards strengthened interplay between key stakeholder groups and the levers in the rubrics. Furthermore, the evidence highlights the need for a major shift – including through market signals mediated by finance – towards decarbonisation as opposed to energy efficiency of buildings alone to fully achieve climate-positive practices.

An overhaul of the economics that govern real estate, and leveraging community and grassroots energy, combined with conceptual clarity about what equity and inclusion mean in the context of the built environment offer opportunities to bring about wider change in the industry. The challenge of redirecting and restructuring highly complex and fragmented value chains consists of the need to accommodate new business models, including digitally enabled ones, as part of a circular economy in the built environment.

In summary, the evidence presented in this report makes it strikingly apparent why the current situation is rated as ‘unconducive’. Moreover, to meet the aims for a thrivable state by 2030 there is still a long way to go in an alarmingly short amount of time. Hence, the Laudes Foundation mission could not be more imperative.

## About the Project, Its Aims and Approach

Laudes Foundation was launched in 2020 with a mission to “support brave action to inspire and challenge industry to harness its power for good”. In 2021, the foundation published a systems map and an ambitious Theory of Change, which shows how the interventions they support aim to contribute to both short- and long-term changes while providing a framework for impact assessment. The first step in putting the Theory of Change to work was to assess the current state. To document the present-day conditions within its focus areas against the newly developed Theory of Change, the foundation commissioned a systems baseline<sup>1</sup> study to inform the depth and pace of change needed over the period from 2021 to the end of 2025. Focusing on progress made in tackling the combined climate and inequality crises, the objective of the baseline exercise is:

“To provide an assessment of the current status of the systems Laudes Foundation wants to influence in relation to the outcomes and impacts included in the foundation’s Theory of Change.”<sup>2</sup>

Future Impacts and 4CF conducted this systems baseline analysis for Laudes Foundation mainly via a literature review and three real-time Delphi surveys<sup>3</sup>. The evidence from the two work streams was combined to determine the status of actors’ behaviour in each of three industries (fashion, finance and capital markets, and built environment) using the Laudes Foundation rubrics system. The regional focus of the analysis was on Europe, with a focus on Asia for the fashion industry.<sup>4</sup>

To rate current conditions for the three industries using the rubrics, the expert assessment from the Delphi survey was triangulated with evidence from the established literature. An expert workshop was then held to discuss areas that remained unclear due to differing results from the two work streams. The triangulation effort and the expert workshop, supplemented by additional expert interviews, brought the ratings from both work streams together to arrive at a final rating.

This report presents all results and ratings in a scorecard-type overview, elaborating on the evidence from Delphi experts<sup>5</sup>, from the literature review, and from the expert workshop and interviews, for all three industries and across the ratings of relevant rubrics. In addition, specific pieces of evidence from the research are highlighted, along with a reflection on knowledge gaps or evidence gaps in the consulted literature that became apparent during the research.

Laudes Foundation will use this report to inform its operational and strategic planning, its annual learning and strategic adaptation, and as a reference point to monitor and evaluate systems change across programmes. With the publication of these findings, the foundation also aims to serve the wider community by enabling them to access the research and use the results.

<sup>1</sup> See, e.g., Eurostat’s framing of what a baseline is: “A baseline study is an analysis of the current situation to identify the starting points for a programme or project. It looks at what information must be considered and analysed to establish a baseline or starting point, the benchmark against which future progress can be assessed or comparisons made.” Eurostat (2014). Glossary: Baseline study. URL: [https://ec.europa.eu/eurostat/statistics-explained/index.php/Glossary:Baseline\\_study](https://ec.europa.eu/eurostat/statistics-explained/index.php/Glossary:Baseline_study)

<sup>2</sup> Laudes Foundation (2021a). Request for Proposals. Systems Baseline Report for Laudes Foundation’s Theory of Change. URL: <https://www.laudesfoundation.org/latest/news/2021/02/systems-baseline-report>

<sup>3</sup> Hereafter referred to as ‘Delphi’ in this document.

<sup>4</sup> In some instances, the analysis includes information on global developments, or developments in other world regions that were particularly relevant to framing developments in Europe. Except for the fashion industry, however, Europe was the main regional focus in assessing the rubrics. Extending the analysis to include other regions might be a useful next step.

<sup>5</sup> See the Annex report for a list of experts involved and their backgrounds. The project team thanks the experts for their time and contributions, on which the project results rest.

## The Basis and Backdrop of This Project: The Laudes Foundation rubrics<sup>6</sup>

Laudes Foundation has developed its own rubrics-based methodology, i.e., “a framework that sets a standard for what ‘good’ looks like – and creates a shared language for describing and assessing it.”<sup>7</sup> The methodology consists of 21 rubrics (categorised into four groups) that work across various levels, from processes to long-term impact, and are integrated into the foundation’s grant-making processes – from design through to measurement, evaluation, and learning.

This project focused on the 12 rubrics in categories C and D:

- **Category C** captures the 2025 outcomes, focusing on how policymakers, financiers, business leaders, and workers and producers behave.
- **Category D** captures the 2030 impacts, describing the new reality created by sustained efforts.

Each rubric is designed to be assessed on a rating scale from ‘harmful’ to ‘thrivable’. The full documentation of the rubrics (Laudes Foundation 2021) describes each rubric in detail, and defines the ratings<sup>8</sup>.

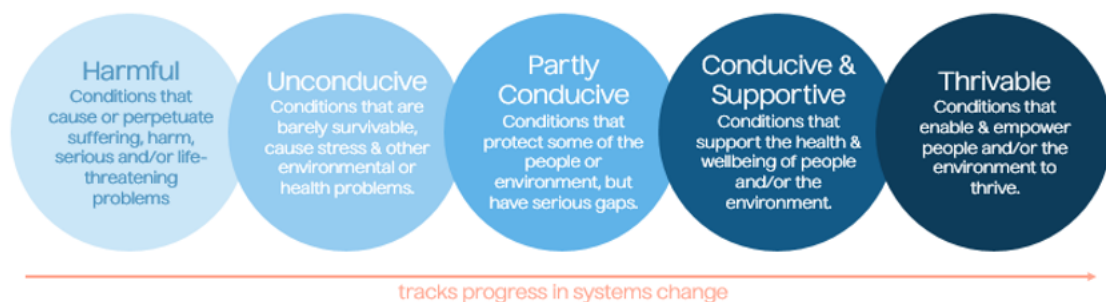


Image: Laudes Foundation Rubrics Rating Scale, from: Laudes Foundation 2021

The rubrics serve as the backdrop, basis, and framework for assessing the current situation in the three industries within this project, to arrive at the baseline assessment. Accordingly, the ratings provide an assessment of the conditions that exist today, based on available evidence, to be used as a benchmark against the 2025 outcomes and 2030 impacts envisaged by Laudes Foundation.

<sup>6</sup> For details on the rubrics, see Laudes Foundation (2021). Laudes Foundation rubrics. URL: [www.laudesfoundation.org/grants/rubrics](http://www.laudesfoundation.org/grants/rubrics)

<sup>7</sup> Laudes Foundation (2021). Laudes Foundation Rubrics. URL: [www.laudesfoundation.org/grants/rubrics](http://www.laudesfoundation.org/grants/rubrics)

<sup>8</sup> For example, from the rubrics C on outcomes 2025, rubric C1 refers to “Policymakers reform, implement, enforce and protect critical laws and policies that require 1a. climate-positive practices & 1b. equity and inclusion”, with details provided for each of the possible ratings.

For example, the definition of a rating as harmful reads as follows:

“Efforts by policymakers to reform, implement, enforce and protect critical laws and policies that require climate-positive practices and equity are clearly failing. One or more of the following are evident:

- There is virtually no buy-in for passing reforms that require climate-positive practices and equity. Any reforms passed are severely diluted with major loopholes and other critical weaknesses.
- Policy implementation may be undermined by saboteurs within the involved agencies and/or is extremely ineffective due to seriously misaligned systems and processes that run counter to the policy intent.
- There are very weak or no enforcement mechanisms for monitoring harmful practices; businesses failing to comply can virtually always avoid any meaningful consequences.

Existing policies that require climate-positive practices and equity are insufficiently protected; they are under serious threat from – or have already been adversely affected by – widespread and effective counter-lobbying and backsliding efforts by businesses and industry groups.” See Laudes 2021 for more details on all rubrics and ratings definitions.

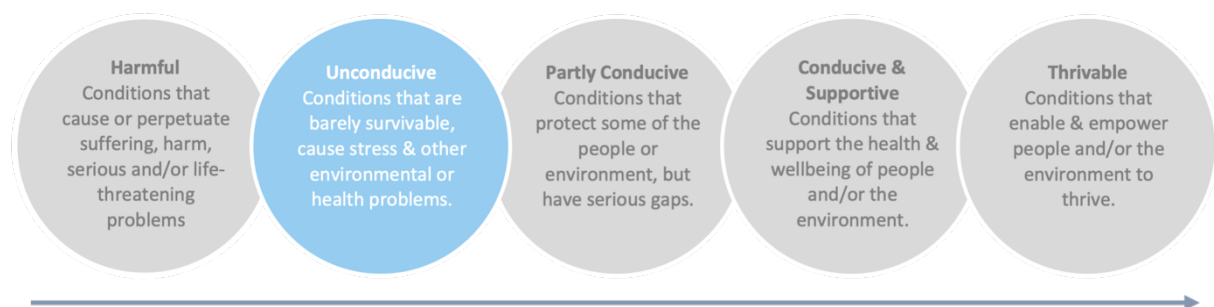
## The Results: Lack of Speed and Momentum in Moving Away from Harmfulness (and a Long Way to Go for a Thrivable Position)

The following three sections, one for each industry, introduce the overall results. This is followed by the results for all rubrics for all three industries as aggregated between the Delphi surveys and the literature review and finalised based on discussions at the expert workshop and additional expert interviews.

Read in conjunction with the detail for each rubric, the findings offer a detailed picture of the current state of progress by various stakeholder groups in leveraging policies and regulation, methodologies, models, and practices as well as advocacy and a shift in power relationships to contribute to the transition towards climate-positive practices and greater equity and inclusion.

While the Delphi surveys and expert workshop sought direct feedback from experts on the Theory of Change rubrics and enabling a shared sense-making process, the literature review dove deeper into specific themes relevant to each industry, compiling evidence from a variety of sources. The insights gained for each industry are therefore also profiled here through quotes that highlight key points.

### The Overall Picture: An Unconductive Status Quo



**The Laudes Foundation system is assessed as ‘unconductive’ for all four 2025 Outcomes (C rubrics) and for all four 2030 Impacts (D rubrics). While progress is visible across all three industries, and positive examples and signals were detected, the situation is still barely survivable, causing stress and other environmental and health problems, as progress remains too slow and systemic issues persist.**

The foundation’s Theory of Change articulates how Laudes Foundation interventions are expected to contribute to short- and long-term changes. In addition to providing a framework for impact assessment, the Theory of Change and the rubrics fill an array of functions, such as guiding actions, shaping decisions on partnerships and informing on how existing relationships are monitored and evaluated.

While the approach outlined below establishes a baseline rating for the three industries that help to set the boundaries for the Laudes Foundation system, an overall rating of the system can also be ascertained from the research as a sum of the assessments of all three industries. This overall rating stands apart from the industry ratings and provides an assessment of where the Laudes Foundation system stands today.

The sum of the assessments for all three industries is clear: The situation as it stands today, while no longer ‘harmful’ – which likely was the case until recently – is assessed as ‘unconductive’. To put it



simply: There is progress, but that progress is not enough to reach the aims outlined by Laudes Foundation. Considering that efforts to instigate change date back decades, the issue is not just that the change evident so far is slow, but that it is clearly too slow to achieve a thrivable position by 2030.

There are manifold examples of such positive signals of change and progress. This is most noticeable where a small group of rubrics were rated more positively, i.e., as ‘partly conducive’, than all other assessments (where the rating result was ‘unconductive’). This was the case for the fashion industry with respect to rubric C3b, referring to businesses promoting and implementing bold policies, models and practices that contribute to equity and inclusion, which was assessed as ‘partly conducive’. The underlying evidence shows that “currently there is very high sensitivity to human rights, equality, and inclusion in the organized sector” (with the unorganised parts of the sector lagging), or that “this is an established area of business accepting responsibility” (quotes from expert contributions in the Delphi surveys and the workshop). Also, rubric C4a for finance and capital markets, referring to workers, producers and communities claiming rights and building power to organise for climate-positive policies and practices, was assessed as ‘partly conducive’. Examples from the evidence include ambitious climate change targets and policies on the local level, as well a boom in bottom-up initiatives such as Repair Cafés, community supported agriculture, and fab labs.<sup>9</sup> Beyond those two areas where ratings were ‘partly conducive’, positive signals of change are visible and cited across all sources of evidence and across the three sectors, spanning large-scale policy measures such as the European Green Deal, including its circular economy focus, up to a considerable increase in sustainability reporting as well as investment.

As a Delphi expert noted, however, it is clear that progress is not yet sufficient: “Globally, things are heading in the right direction, but progress is too slow”. The literature confirmed this conclusion, and in one case it was phrased nearly identically: “Things are beginning to change but not nearly fast enough.”<sup>10</sup> Accordingly, next to those signs of change that point in the right direction, the remaining challenges and unresolved issues are obvious and have been highlighted throughout all sources of evidence. Among the challenges that have yet to be tackled sufficiently are misaligned incentives and long-term goals, a lack of (accepted) responsibility along the whole value chain, and problems in addressing systemic levers or barriers to further progress.<sup>11</sup> Examples from the evidence point, among other things, to the misalignment of current renovation strategies in the building sector with the EU 2050 Climate Objectives; analysis demonstrating that the substantial renovation activity needed will not be met based on current conditions;<sup>12</sup> and a massive mismatch between financial markets’ activities aiming to align with the Paris Agreement and the business world. The latter is demonstrated by the fact that “just 8% of European corporates (have) set targets in line with a well-below 2°C rise”, which has created “a gap of more than €4 trillion between the lending that banks plan to align with Paris and the current available demand for such financing.”<sup>13</sup> Another example from the evidence regarding equality and inclusion (here referring to the fashion industry) points out how well-known issues persist, such as “currently, less than one percent of spending of large businesses on suppliers is earned by women-owned businesses.”<sup>14</sup>

<sup>9</sup> Examples come from the literature, as well as from the Delphi and the expert workshop, and refer to changes that go beyond the financial and capital markets sector.

<sup>10</sup> The first quote is from an expert contribution in the literature review, the second from the literature review, specifically Fashion Revolution 2020a, p.37. While both quotes originally refer to the fashion industry, they sum up the overall picture across sectors as can be gathered from the triangulated evidence.

<sup>11</sup> All three sources of evidence stressed the need for more systemic long-term perspectives and approaches, as visible in a conclusion in one of the publications from the literature review on the building sector, stressing that policy and legislation needs to “support the reconfiguration of whole systems, phase out existing technologies and alleviate negative consequences” (EEA 2019, p.9).

<sup>12</sup> Evidence from the literature review, based on an analysis of respective strategies in EU member states representing over 50% of the EU population, see BPIE 2021, p.4.

<sup>13</sup> See CDP 2021, p.5 and the following pages for details on this.

<sup>14</sup> See UNEP 2020b, p.34 for details, stressing also that there is no clear path forward for change visible yet.

Considering the ratings and underlying evidence across the three industries it is clear why the situation remains uncondusive, and that there is still a long way to go and a short amount of time to meet a thrivable state by 2030. Given the complexity of the issues to be addressed and the degree of the step change needed, it is apparent that large-scale radical efforts will be necessary to realize the required changes, and that the actions need to be implemented rapidly and at large-scale to stand a chance of making any real impact within the given timeline.

The following sections present the rating results and underlying evidence in detail by industry. They also identify opportunities the research identified that can serve as signposts for a path towards a more thrivable position than currently exists.

## Fashion Industry: A Status Between Unconductive and Partly Conductive

“There is a lack of cohesion and accepted responsibility between players at different steps in the fashion value chain/cycle. Many businesses are expecting others to take up responsibility for critical systems change, for example brands don't see themselves as responsible for products at end-of-life and are therefore unwilling to invest in the necessary infrastructure to address waste.” (Expert comment from Delphi)



“Globally things are heading in the right direction, but progress is too slow. More should be done to accelerate progress.” (Expert comment from Delphi)



**A final rating of ‘unconductive’ for 11 of the rubrics and ‘partly conductive’ for only one rubric reflects limited progress in the fashion industry. The presence of a small number of reforms and indications of minor industry shifts meant the industry was rated better than ‘harmful’.**

With the rubrics related to businesses making bold choices that contribute to equity and inclusion (C3b) receiving the only ‘partly conductive’ rating, it appears that some businesses have begun to recognise equity and inclusion as a key concern. However, other stakeholder groups have a lot of catching up to do in translating fledgling insights into a robust system of legal obligations and sanctions and appropriate systems to redirect financial flows accordingly, and genuinely hand power and rights to workers, producers and communities.

Regarding climate positivity, there are early signs that harmful processes and practices are being recognised. Still, very limited progress has so far been made in addressing the issue by any of the four main stakeholder groups.

Note: The following table provides examples of evidence across all sources used in arriving at the rubric ratings. Any reading of the table needs to be informed by direct reference to the specific indicators included in the Laudes Foundation’s Rubrics (Laudes Foundation 2021), as well as a consideration of the multi-step triangulation process involved at arriving at the final ratings (detailed information can be found in the Annexes to this report). The following table only provides an impression of pieces of evidence related to each rubric.

**Harmful**  
Conditions that cause or perpetuate suffering, harm, serious and/or life-threatening problems

**Unconducive**  
Conditions that are barely survivable, cause stress & other environmental or health problems.

**Partly Conducive**  
Conditions that protect some of the people or environment, but have serious gaps.

**Conducive & Supportive**  
Conditions that support the health & wellbeing of people and/or the environment.

**Thrivable**  
Conditions that enable & empower people and/or the environment to thrive.

## Fashion Industry: 2025 Outcomes

Rubric	Rating	Positive developments (extract, exemplary)	Concerning developments (extract, exemplary)
<b>C1a.</b> Policymakers reform, implement, enforce and protect critical laws and policies that require climate-positive practices		<ul style="list-style-type: none"> <li>Regulators and policy-makers on board for raft of initiatives to change economics of circularity. (McKinsey 2021, p.65)</li> <li>Governments and intergovernmental institutions beginning to take concrete actions along global supply chains (e.g. UK Modern Slavery Act, Human Rights Due Diligence (HRDD) legislation such as Child Labour Due Diligence Law). (Fashion Revolution 2020a, p.16)</li> </ul>	<ul style="list-style-type: none"> <li>Current regulations lack scale of ambition required to protect natural systems, eliminate unjust linear destruction supply chains and meaningfully foster circular alternatives. (Delphi contribution)</li> <li>Actions not making impact fast enough. (Fashion Revolution 2020a, p.16)</li> <li>Enforcement of legislation hampered in developing countries. (UNEP 2020b, p.56; see also EMAF 2020a, e.g. p.49)</li> </ul>
<b>C1b.</b> Policymakers reform, implement, enforce and protect critical laws and policies that require equity and inclusion		<ul style="list-style-type: none"> <li>More lawmakers focusing on moving away from voluntary initiatives. (McKinsey 2021, p.74)</li> <li>Promising efforts over last 5 years to address low wages (e.g. ACT). (Fashion Revolution 2020a, p.30)</li> </ul>	<ul style="list-style-type: none"> <li>Achieving systemic change will require stronger governance and coordinated actions by all stakeholders across regions and changes in consumption patterns. (UNEP 2020b, p.7)</li> <li>Exploitation remains rife in global fashion industry. (Fashion Revolution 2020a, p.29)</li> <li>The intersectional elements of climate justice [the link to equity and inclusion] are not being addressed. (Delphi contribution)</li> </ul>
<b>C2a.</b> Financial sector actors use their influence, policies, practices and valuation methodologies to ensure climate-positive practices		<ul style="list-style-type: none"> <li>Pressure from investors, regulators, customers and consumers on companies to provide transparency along value chain mounting. (CDP 2020, p.4)</li> <li>Regulatory incentives designed to change economics re waste. (McKinsey &amp; GFA 2020, p.21)</li> </ul>	<ul style="list-style-type: none"> <li>Requirement for significant upfront capital allocation for more climate-friendly treatment of 'waste' likely to be significant disincentive. (McKinsey &amp; GFA 2020, p.21)</li> <li>Cost still being cited as main blockage to using new technologies effectively. (USCTP 2020, p.21)</li> <li>ESG investing has been giving attention to environmental sustainability, but not clear whether that is enough to forego profits. (Delphi contribution)</li> </ul>
<b>C2b.</b> Financial sector actors use their influence, policies, practices and valuation methodologies to ensure equity and inclusion		<ul style="list-style-type: none"> <li>Demand by investors as well as regulators for inclusion and equality at board and senior executive level increasing. (Delphi contribution)</li> <li>Textile platforms supporting start-ups and fostering partnerships to grow sustainable incomes from the fashion industry for women and youth in Africa beginning to emerge. (UNEP 2020b, p.65)</li> </ul>	<ul style="list-style-type: none"> <li>Gender gap in access to key resources likely to continue to see women excluded from economic opportunities. (UNEP 2020b, p.34)</li> <li>Less than 1% of spending from large businesses earned by women-owned businesses. (UNEP 2020b, p.34)</li> <li>Historically less than 1% of venture capital gone to black individuals. (McKinsey 2021, p.48, footnote 89)</li> </ul>
<b>C3a.</b> Businesses promote and implement bold, climate-positive policies, models and practices		<ul style="list-style-type: none"> <li>Nascent stage but moving in a very positive way: Progressive companies making climate change pledges and demonstrating leadership (e.g. WBSCD, SAC membership requirement). (Delphi contribution)</li> <li>Many companies realising tension between short-term economic gains and environmental commitments. (Boston Consulting Group 2020 in CDP 2020, p.6)</li> <li>New ways of doing business (e.g. clothes rental) and new recycling technologies emerging. (UNEP 2020b, p.7)</li> </ul>	<ul style="list-style-type: none"> <li>The span of initiatives is vast, from exemplars of good practice, often in small businesses, to hypocritical practices. (Delphi contribution)</li> <li>Many products not yet designed with durability/longevity or recycling in mind. (Euratex 2020b, p.13)</li> <li>Businesses not able to markedly improve environmental practices as long as purchasing practices remain economically unsustainable. (Delphi contribution)</li> </ul>



## Fashion Industry: 2025 Outcomes

Rubric	Rating	Positive developments (extract, exemplary)	Concerning developments (extract, exemplary)
<b>C3b.</b> Businesses promote and implement bold, climate-positive policies, models and practices that contribute to equity and inclusion		<ul style="list-style-type: none"> <li>Reputational risks to brands and retailers, especially of human rights abuses in their supply chain, are a strong driver of improved labour practices. (UNEP 2020b, p.52)</li> <li>Across the value chain, companies seeking to incorporate human and labor rights into business practices. (KPMG &amp; TE 2019, p.10)</li> <li>Very high sensitivity to human rights, equality, and inclusion in organized sector. (Expert workshop)</li> <li>Policies ahead of practises and impact, but established area of business accepting responsibility. (Expert workshop)</li> </ul>	<ul style="list-style-type: none"> <li>Persistent challenges remain to ensuring safe fair working conditions particularly for women in the sector. (KPMG &amp; TE 2019, p.8)</li> <li>Shifts in production to low-cost country sourcing remains short-term solution to long-term challenge of value creation. (KPMG &amp; TE 2019, p.10)</li> <li>Myriad of business processes and controls obscuring actual results achieved by suppliers, brands, and retailers - many brands unable to trace supply chains beyond assembly. (KPMG &amp; TE 2019, p.10)</li> </ul>
<b>C4a.</b> Workers and producers claim rights and build power to organise and advocate for climate positive policies and practices		<ul style="list-style-type: none"> <li>Clothing 'swaps' growing in number and popularity around the world. (Fashion Revolution 2020a, p.23).</li> <li>Platforms like Wikirate and Open Apparel Registry helping to make transparency information more practical to use. (Fashion Revolution 2020a, p.54)</li> </ul>	<ul style="list-style-type: none"> <li>Climate change not reflected in workers' rights agendas either in EU or Asia. (Delphi contribution)</li> <li>Less than one-third of brands publish supplier policies on key topics. (Fashion Revolution 2020b, p.28)</li> <li>Workers, producers, and manufacturing communities often struggling with food security, stable wages, safe work environments and other basic issues and have little to no voice in climate policies. (Delphi contribution)</li> </ul>
<b>C4b.</b> Workers and producers claim rights and build power to organise and advocate for equity and inclusion		<ul style="list-style-type: none"> <li>87% of companies have policies upholding freedom of association and collective bargaining. (BWAA 2019, p.38)</li> <li>Journalists and workers' organisations using supplier lists to address poor working conditions in major brand supply chains. (Fashion Revolution 2020b, p.5)</li> <li>NGOs and pressure groups doing vital work as very visible advocates for workers' rights. (Delphi contribution)</li> </ul>	<ul style="list-style-type: none"> <li>Except in some initiatives with a rather limited scope, freedom of association is often not respected across the global textile industry. (Delphi contribution)</li> <li>Workers still rarely included in design of solutions. (Fashion Revolution 2020a, p.16)</li> </ul>

## Fashion Industry: 2030 Impacts

<b>D1.</b> Bold policy and regulatory frameworks have created the foundation for a new economy grounded in climate-positive practices, inclusion and equality		<ul style="list-style-type: none"> <li>Concept of circular economy reflects that European systems of production and consumption need to be fundamentally transformed to achieve EU's 2050 vision. (GIZ 2019, p.17)</li> <li>Specific hard design criteria that could be made part of non-financial reporting being discussed in EU. (GIZ 2019, p.32)</li> </ul>	<ul style="list-style-type: none"> <li>Lack of capacity within governments to enforce legislation and lack of global coordination between governments need to be addressed if stronger governance is to be attained. (UNEP 2020b, p.69)</li> <li>Governments and brands/ retailers unlikely to take action at scale unless there is considerable advocacy. (UNEP 2020b, p.70)</li> <li>Most work is add on, reducing problems based on extractive, colonised economic thinking - this has to change for real change to take place. (Delphi contribution)</li> </ul>
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**Harmful**  
Conditions that cause or perpetuate suffering, harm, serious and/or life-threatening problems




**Unconducive**  
Conditions that are barely survivable, cause stress & other environmental or health problems.

**Partly Conducive**  
Conditions that protect some of the people or environment, but have serious gaps.

**Conducive & Supportive**  
Conditions that support the health & wellbeing of people and/or the environment.

**Thrivable**  
Conditions that enable & empower people and/or the environment to thrive.

## Fashion Industry: 2030 Impacts

Rubric	Rating	Positive developments (extract, exemplary)	Concerning developments (extract, exemplary)
<b>D2.</b> An accountable financial sector enables, conditions and rewards climate-positive practices, inclusion and equality		<ul style="list-style-type: none"> <li>Opportunities exist for investors to allocate capital towards innovative players offering solutions. (McKinsey &amp; GFA 2020, p.24)</li> </ul>	<ul style="list-style-type: none"> <li>Improving women's financial inclusion in the sector is essential if potential increase in economic opportunities is to contribute to equity and inclusion. (UNEP 2020b, p.34)</li> <li>Scale of change required implies a need for bold commitments. (McKinsey &amp; GFA 2020, p.4)</li> <li>Rewards for climate positive and social equality are the 'good to have' rather than the licence to do business. (Delphi contribution)</li> </ul>
<b>D3.</b> Responsible businesses and industries are climate-positive and ensure inclusion and equality for workers, producers and communities		<ul style="list-style-type: none"> <li>Companies shifting slowly towards more radical transparency. (Fashion Revolution 2020b, p.47)</li> <li>Brands and retailers disclosing their suppliers, not only at the first tier of manufacturing but also the facilities where their cloth is woven and the sources of their raw materials. (Delphi contribution)</li> </ul>	<ul style="list-style-type: none"> <li>Responsible businesses have declared their intent to be climate positive but only a handful are climate positive as of now. (Delphi contribution)</li> <li>Design and retail businesses taking some proactive moves, but not translated into more balanced power dynamic across supply chains (i.e. margins, speed, etc. unevenly negotiated due to power imbalance). (Delphi contribution)</li> <li>Expectation that companies which act quickly, and are transparent with their actions, in response to growing demands will become leaders of a renewed fashion industry. (Fashion Revolution 2020b, p.47)</li> </ul>
<b>D4.</b> Active, organised workers and producers exercise power to secure climate-positive practices, inclusion and equality		<ul style="list-style-type: none"> <li>Suppliers in all industry segments are speaking up. (McKinsey 2021, p.74)</li> <li>Circular fashion opening up new opportunities in used garment space and recycling - manual process creating opportunities for low-income groups. (Expert workshop)</li> </ul>	<ul style="list-style-type: none"> <li>Despite efforts of businesses and NGOs, lack of government policy/ enforcement in many regions results in only marginal progress. (Delphi contribution)</li> <li>Majority of workers and their families trapped in cycle of poverty and fashion production throughout the Asia Pacific marred by prevalence of slavery and child labour. (BWAA 2019, p.6)</li> </ul>

## Key Themes, Risks and Opportunities

**Key themes:** Items of evidence that would individually have been rated as ‘harmful’ related to impacts on the fashion industry from the wider economic system. Harmful policy incentives such as prioritising shareholder value over environmental impacts, for instance, were seen as a block to more progress in the industry: “In many countries, companies are actually required by law to ensure shareholder value is prioritised first, no matter the consequences for workers, communities and the environment” (Fashion Revolution 2020a, p.26). More specific to the fashion industry, barriers to implementing circular principles are mentioned frequently, and the literature highlights a lack of insight into how to remove them (e.g., UNEP 2020b, p.55).

Regarding equity and inclusion, the gender disparity within the fashion industry is frequently cited: “Currently, less than one percent of spending of large businesses on suppliers is earned by women-owned businesses” (UNEP 2020b, p.34). Moreover, there is no clear path forward for change: “The gender gap in business performance, due among others (sic) factors to access to finance, information and communications technology use, skills, human capital, agency and the business environment (the latter involving elements such as time for child care, harassment and property holding), will continue to see women excluded from economic opportunities along the value chain unless these are addressed” (UNEP 2020b, p.34).

Furthermore, the literature stresses the need to support developing nations’ capacity, highlighting that “For developing countries, a lack of training and resources hampers enforcement of legislation. There is therefore a need for governments in developing countries to be endowed with the capacity to set and enforce legislation on chemicals, and to better balance social and environmental protection against developmental needs” (UNEP 2020b, p.56; see also EMAF 2020a, e.g., p.49).

The literature clearly indicates that the ratings should be slightly better than ‘harmful’, which is why a rating of ‘unconductive’ was assigned. In particular, publications highlight considerable progress in recent years: “Over the past seven years, several governments and intergovernmental institutions have taken decisive and concrete actions to address human rights abuses and environmental damage occurring along global supply chains, including within the fashion and textiles industry” (Fashion Revolution 2020a, p.16). The same publication also stresses that “When it comes to environmental issues, and especially climate breakdown, there has been a raft of legislation and policies coming into play around the world” (Fashion Revolution 2020a, p.17).

A similar assessment is evident in the literature regarding a push towards circularity regulation: “Regulators and policy-makers are also on board, amid a raft of upcoming initiatives to promote circular practices (such as in the EU) and prohibit the destruction of luxury goods, as can be seen in France. More generally, measures such as the EU’s carbon border tax will promote circularity by making the economics of onshore recycling and other circular models more attractive” (McKinsey 2021, p.65). Nevertheless, the transition towards a circular textile industry in Europe is described as “still in its infancy due to a wide range of socio-economic, environmental and legal barriers which create path dependencies and inhibit the adoption of circular solutions on a broader scale” (GIZ 2019, p.35). Despite this, some sources conclude that “Things are beginning to change but not nearly fast enough” (Fashion Revolution 2020a, p.37).

Many of the pointers for ratings on the D rubrics pointed to the seriousness of the fashion industry’s intention to improve sustainability and equality, as well as overall transparency, across supply chains: “More and more companies are beginning to acknowledge the strategic value of transparency and the support it can give to their due diligence processes as well as in rebuilding trust. This is why we are seeing brands and retailers disclosing their suppliers, not only at the first tier of manufacturing



but also the facilities where their cloth is woven and the sources of their raw materials” (Fashion Revolution 2020b, p.47).

## Evidence Gaps and Weak Signals Revealed by the Literature Review

Evidence to assess the rubrics relating to workers and producers organising and advocating for climate-positive practices and policies (C4a) was particularly hard to find. Labour rights are likely to be the priority here. These may play out in more general political conflict in individual producer countries and outside the confines of the fashion industry. However, they are likely to take the most attention, so any bottom-up momentum for environmental objectives cannot be counted on in the fashion industry.

The literature contained references to the barriers for producers to adopt more climate-positive practices. Among these was the inability of small holders to access finance for a transition to more environmentally sustainable practices (EMAF 2018, p.80) and the initial drops in yield size and revenue as a result of transitions to more climate-positive farming techniques (McKinsey & GFA 2020, p.13). This is accompanied by calls for brands to support farmers: “Companies seeking higher take up of organic cotton can seize this nascent [cotton fibre] market to encourage farmers to adopt sustainable farming methods” (KPMG and Textile Exchange, 2019, p.56, see also p.12 & 39).

Thus, collecting additional evidence and identifying potential weak signals of whether and where farmer and producer initiatives (e.g., by local producers as highlighted in the expert workshop), might be brought to fruition would be a worthwhile focus for further research.

With regard to various stakeholder groups in the literature, financial markets – while seen as crucial in bringing about fundamental change – are not considered active drivers for change at this stage. Discussions at the expert workshop suggested that the fashion industry appears to remain under the radar so far. Instead, in the fashion industry, much is riding on the business world to adopt new practices, combined with the policy and regulatory effort to influence business behaviours.

Judging by discussions at the expert workshop, the relationship between producers and buyers is an area to watch for signals of change in employment practices becoming embedded in the industry more widely. This is because it is broadly accepted that suppliers’ procurement actions affect practices along the entire supply chain and can directly contribute to “better livelihoods for the farmers and contributes to a more sustainable portfolio of raw materials” (KPMG and Textile Exchange, 2019, p.12).

Finally, on the role of businesses, the expert workshop highlighted the crucial importance of carbon-neutral and circular technologies in enabling new production and business models. Weak signals from early adopters may point to opportunities for such developments to spill into a wider market dynamic. First steps are also being taken in calculating the financial value of circular practices, such as the monetary value of restoring degraded lands (see Biomimicry Institute 2020, p.22). These areas would be worth monitoring closely.

## Opportunities to advance the outcomes:

Contributions at the expert workshop suggested that an opportunity might exist for an industry convener, such as an NGO, to catalyse change. More widely promoting coherent frameworks for the sharing of data about the social and environmental performance of players across the industry would be one opportunity to do so. This might take the form of introducing greater transparency into the value chain. Blockchain-supported tracking of data is one possible tool. Currently, there is no



framework or standard for data sharing between systems, an aspect considered critical to be able to address risks and unlock circular economy opportunities within the fashion industry.

Considering climate, the workshop also identified opportunities to demonstrate and evaluate economic opportunity and thereby accelerate the pace of change. This theme was also evident from the literature review, e.g., suggesting that business opportunities from tackling water pollution were underestimated and could be seized to accelerate progress (CDP 2020, p.4).

Other opportunities the literature identified include extending the life of clothes and changing laundry practices, which would bring the greatest reduction in climate impacts (UNEP 2020b, p.22), further reinforcing the strong increase in companies tracing inputs and raw materials suppliers (BWAA 2019, p.8) and exploring how blockchain might be used to solve the traceability problem (USCTP 2020, p.26, 27).

In relation to equity and inclusion, the disclosure of audit results already drives positive change for producers and workers in the supply chain (Fashion Revolution 2020b, p.45). This provides further momentum for the (small) steps already being taken concerning granting a living wage (BWAA 2019, p.9). Moves by government and intergovernmental institutions to take concrete legislative actions along the global supply chains (e.g., UK Modern Slavery Act, Human Rights Due Diligence legislation such as Child Labour Due Diligence Law) (Fashion Revolution 2020a, p.16) offer additional levers to bring about change.

Improving traceability down to the farm-level in the supply chain would be a major step in exposing deep-rooted environmental and social issues. Currently a low “11% of brands publish what human rights and environmental risks, impacts and violations are identified through the supply chain due diligence process” (Fashion Revolution 2020b, p.44), while “just 8% of brands disclose the outcomes or results of the steps the company has taken to cease, prevent, mitigate and remedy these human rights and environmental risks, impacts and violations” (Fashion Revolution 2020b, p.44).

In addition, contributions at the expert workshop suggest that an opportunity might exist to work with governments in strengthening legislation and labour inspection around freedom of association, making it clear to producer associations that rights violations in this domain will affect sourcing commitments. The experts also pointed out, however, that a key challenge in delivering on such commitments lies in the “lack of regulatory support and policing at national level”.

Examples of solutions in the literature include a rental service for workwear and protective clothing (EMAF 2018, p.94) or high textile collection rates in Denmark (GIZ 2019, p.16). Similarly, the Swedish tax on clothes and shoes containing toxic materials that is currently being implemented (CDP 2020, p.16) is worth exploring with a view to identifying lessons for wider application.

### **Threats that inhibit progress:**

Regarding the climate crisis, a majority of companies appear to lack awareness or understanding as well as reliable and standardised reporting mechanisms of their sustainability performance (USCTP 2020, p.5). This relates, for instance, to water use and wastewater treatment (BWAA 2019, p.6; CDP 2020, p.11; UNEP 2020b, p.27) or to practices in relation to microfibers and microplastic release (UNEP 2020b, p.25). Producers and farmers in particular face increasing threats from environmental forces that could have major implications for the future availability of raw material for the fashion industry, e.g., “the production of natural fibres is a particular hotspot in terms of ecosystem quality and water scarcity impacts, especially cotton, with its high use of water, land and agrichemicals” (UNEP 2020b, p.48).

Participants at the expert workshop commented that without robust legislation, linear business models are still winning out over practices guided by decarbonisation. Evidence from the literature review suggests that this is exacerbated by the steady decrease in the number of high-quality textiles suitable for recycling (GIZ 2019, p.16) and the fact that recycling technology is not sufficiently advanced to be used at scale and deliver truly circular outcomes (Expert workshop & Fashion Revolution 2020a, p.36).

Evidence from the literature review points to a lack in consumer understanding of sustainability labels or scales (GIZ 2019, p.26). Their confusion, combined with social media driving the fast fashion culture (Fashion Revolution 2020a, p.41) and negative associations with the terms “recycling”, “upcycling” or “refurbishing” (McKinsey 2021, p.66) hinder progress.

When it comes to equity and inclusion, beyond small-scale social dialogue experiments, experts at the workshop noted a lack of rights in law inhibits workers’ ability to organise and collectively bargain, while also constraining the ability of producers and communities in the supply chain to exert much influence, thereby hindering progress.

The literature review also found gender-based violence, including sexual harassment and abuse, common throughout the value chain (Fashion Revolution 2020a, p.31), as well as deeply engrained structural racism and cultural appropriation reflected in sector practices (Fashion Revolution 2020a, p.33).

Finally, human rights violations, including modern slavery, child labour, low pay, gender violence or unsafe and unsecure working conditions, occur sector-wide (BWAA 2019, p.6; Fashion Revolution 2020a, p.29). These issues are not limited to the Asia-Pacific region but also occur in the US and Europe (Fashion Revolution 2020a, p.29).

## Finance and Capital Markets: A Status Quo from Unconductive to Partly Conductive

“Although more regulatory measures are in place, they often lack 'bite' or have a very long-term implementation path with many exceptions.” (Expert comment from Delphi)



“After so many years of talking about climate change being the No. 1 threat in the history of human civilization, the financial industry is still pouring more money into fossil fuel investments than into renewables, circular economy or other climate change mitigation businesses. [...] the financial industry is sticking to business as usual, each day becoming the main brake on the coming change.” (Expert comment from Delphi)



**The rubrics for finance and capital markets were predominantly rated as ‘unconductive’ suggesting that real breakthroughs are still some way off. First signs of supportive practices and regulatory intent towards more transparency resulted in a rating that was better than ‘harmful’.**

Within finance and capital markets and as a result of recent developments in European Commission regulation in particular, there are early signs that a shift towards a more effective use of metrics, incentives and investments to catalyse more climate-positive practices may be underway.

However, the broader legal and economic system continues to direct financial flows primarily in line with more conventional profit motives, limiting the scope for workers, producers and communities to influence a larger agenda. Hence, a systemic shift, particularly in relation to the treatment of climate-related risks, is still some way off. This explains the prevalence of ‘unconductive’ ratings for the remainder of the rubrics.

A slightly higher rating for the role of workers, producers and communities is owed to evidence suggesting that communities, in particular, are experimenting with new economic approaches.

Note: The following table provides examples of evidence across all sources used in arriving at the rubric ratings. Any reading of the table needs to be informed by direct reference to the specific indicators included in the Laudes Foundation’s Rubrics (Laudes Foundation 2021), as well as a consideration of the multi-step triangulation process involved at arriving at the final ratings (detailed information can be found in the Annexes to this report). The following table only provides an impression of pieces of evidence related to each rubric.



## Finance and Capital Markets: 2025 Outcomes

Rubric	Rating	Positive developments (extract, exemplary)	Concerning developments (extract, exemplary)
<b>C1a.</b> Policymakers reform, implement, enforce and protect critical laws and policies that require climate-positive practices		<ul style="list-style-type: none"> <li>European policy making on climate ahead of most and deeply integrated with industry and finance policy. (Delphi contribution)</li> <li>As a result of rapid progress, EU positioned as global leader driving development and regulation of sustainable finance. (GISD 2020, p.11)</li> </ul>	<ul style="list-style-type: none"> <li>Central bank terms undermine risk standards and reinforce the carbon lock-in. (NEF 2021, p.3)</li> <li>Lack of legal disclosure requirements for companies to report verified data on a sector-specific basis. (NFGS 2020b, p.4)</li> <li>Urgent need for a long-term policy framework for sustainable finance. (EUHLEGSF 2018, p. 10)</li> </ul>
<b>C1b.</b> Policymakers reform, implement, enforce and protect critical laws and policies that require equity and inclusion		<ul style="list-style-type: none"> <li>Post Covid-19 window opportunity to disrupt the status quo/ embed long-term thinking and sustainability commitments into core corporate practices and investment behaviour. (Delphi contribution)</li> </ul>	<ul style="list-style-type: none"> <li>EU Sustainable Finance Action Plan almost exclusively focused on ecological dimension. (Deutsche Bundesbank, p.14)</li> <li>Significant investment gaps for sustainable development priorities such as biodiversity or social economy. (EUHLEGSF 2018, p.9)</li> <li>Essential to use public financial resources in most efficient and catalytic way possible to implement just transition framework. (Delphi contribution)</li> </ul>
<b>C2a.</b> Financial sector actors use their influence, policies, practices and valuation methodologies to ensure climate-positive practices		<ul style="list-style-type: none"> <li>Increasing number of central bank governors acknowledging need to respond to climate change risks to financial sector (e.g. incorporated in new guidelines). (UNIATFFD 2020, p.8)</li> <li>Since 2016 tenfold increase in venture capital/ private equity/ private debt funds investing in circular economy activities; similar trend in bank lending/ project finance/ insurance (incl. new solutions for circular business models). (EMAF 2020b, p.14);</li> <li>Investor duties beginning to put an onus on investors to take account of sustainability. (EUHLEGSF 2018, p.20)</li> <li>Major banks and other financial institutions across the world rapidly adopting new coal exclusion policies. (RAN, BT, IEN, OC, RF &amp; SC 2021, p.10)</li> </ul>	<ul style="list-style-type: none"> <li>Annual funding gap of close to €180 billion just to deliver Europe's decarbonisation efforts. (EUHLEGSF 2017, p.8).</li> <li>Current market practices, from ratings to disclosures and individual metrics, present fragmented and inconsistent view of ESG risks and performance. (OECD 2020, p.16)</li> <li>Bank policies still far too weak to squeeze lending and underwriting out of the coal industry. (RAN, BT, IEN, OC, RF &amp; SC 2021, p.10)</li> </ul>
<b>C2b.</b> Financial sector actors use their influence, policies, practices and valuation methodologies to ensure equity and inclusion		<ul style="list-style-type: none"> <li>Digital technologies providing goods and services at dramatically reduced cost has facilitated inclusion of marginalized and excluded people. (UNIATFFD 2020, p.17)</li> </ul>	<ul style="list-style-type: none"> <li>Impact investment entails concentration on relatively small number of projects and investments and consequently low diversification. (Deutsche Bundesbank 2019 p.6)</li> <li>Digital technologies may exacerbate inequality and discrimination, as algorithms inherit biases from human authors. (UNIATFFD 2020, p.17)</li> <li>Investment analysts continue to urge executives and investment teams to increase returns, often through leverage. (PRE 2021, p.5)</li> </ul>



## Finance and Capital Markets: 2025 Outcomes

Rubric	Rating	Positive developments (extract, exemplary)	Concerning developments (extract, exemplary)
<b>C3a.</b> Businesses promote and implement bold, climate-positive policies, models and practices		<ul style="list-style-type: none"> <li>Investor engagement beginning to challenge lobbying practices. (CA100+ 2020, p.78)</li> <li>Pressure on/ incentives for businesses to incorporate bold climate action into their business models growing (e.g. regulation, carbon tax, employer branding to attract/ retain employees, B2B and B2C branding). (Delphi contribution)</li> </ul>	<ul style="list-style-type: none"> <li>Industry associations continue to engage in problematic lobbying on climate. (CA100+ 2020, p.78)</li> <li>Carbon-intensive companies continue to issue far higher percentage of corporate bonds accepted by ECB than would correspond to their share of EU employment and GVA. (NEF 2021 p.3)</li> <li>Major problem for corporates to assess Scope 3 emissions that make up vast majority of emissions impact for European corporates. (CDP 2021, p.6)</li> </ul>
<b>C3b.</b> Businesses promote and implement bold, climate-positive policies, models and practices that contribute to equity and inclusion		<ul style="list-style-type: none"> <li>Increasingly measurement frameworks in place leading to increased transparency, making it easier for investors and policymakers to steer for meaningful change. (Delphi contribution)</li> <li>Post-pandemic recovery providing window to disrupt status quo. (GISD 2020, p.21)</li> </ul>	<ul style="list-style-type: none"> <li>No widespread movement here, no significant and intentional actions or outcomes. (Delphi contribution)</li> <li>Smaller innovative fund managers being starved of capital as result of consolidated capital flows affecting Black, Indigenous, and People of Color (BIPOC), as well as women in particular. (PRE 2021, p.11)</li> <li>Growth in corporate debt increasing pressure on businesses to be profitable above all else. (PRE 2021, p.28)</li> </ul>
<b>C4a.</b> Workers and producers claim rights and build power to organise and advocate for climate positive policies and practices		<ul style="list-style-type: none"> <li>Growing pressure from grass-root level to mobilize around climate agenda and put pressure on policy makers in Europe. (Delphi contribution)</li> <li>Many newer, bolder NGOs are stepping up. (Delphi contribution)</li> <li>For communities, repaircafé's, community supported agriculture, fab labs etc. all on the rise. (Expert workshop)</li> </ul>	<ul style="list-style-type: none"> <li>Interests of workers, producers and communities can vary a lot - unclear, if these groups will productively work together. (Delphi contribution)</li> <li>Producers and workers fear losing jobs and don't see a bridge between traditional unsustainable sectors and Green Deal of the future. (Delphi contribution)</li> </ul>
<b>C4b.</b> Workers and producers claim rights and build power to organise and advocate for equity and inclusion		<ul style="list-style-type: none"> <li>Number of initiatives in 'commons economy' rising fast and niches growing. (Delphi contribution)</li> <li>Community power on the rise (e.g. movements like community supported agriculture and community owned renewable energy). (Delphi contribution)</li> </ul>	<ul style="list-style-type: none"> <li>Workers and communities taking real risks and creating significant value, but with little reward, leaving the system weak, fragile, and lacking resilience. (PRE 2021, p.55)</li> <li>Conceptual difficulty of identifying how financial markets impact on inclusion and equity. (Delphi contribution)</li> </ul>

## Finance and Capital Markets: 2030 Impacts

<b>D1.</b> Bold policy and regulatory frameworks have created the foundation for a new economy grounded in climate-positive practices, inclusion and equality		<ul style="list-style-type: none"> <li>Driven by increased demand from beneficiaries and policy signals, volume of sustainable financial products and strategies has grown exponentially in past 10 years. (OECD 2020, p.120)</li> <li>Governments accelerating shift towards circular economy. (EMAF 2020b, p.12)</li> </ul>	<ul style="list-style-type: none"> <li>Action in financial system cannot substitute for fundamental measures such as changes in taxation and subsidies. (EUHLEGSF 2018, p.11)</li> <li>Current social protection systems no longer viable for precarious employment relations in gig economy. (UNIATFFD 2020, p.xviii)</li> <li>Unclear to what extent EU Taxonomy will contribute to further market growth in sustainable finance. (Expert workshop)</li> </ul>
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**Harmful**  
Conditions that cause or perpetuate suffering, harm, serious and/or life-threatening problems




**Unconducive**  
Conditions that are barely survivable, cause stress & other environmental or health problems.

**Partly Conducive**  
Conditions that protect some of the people or environment, but have serious gaps.

**Conducive & Supportive**  
Conditions that support the health & wellbeing of people and/or the environment.

**Thrivable**  
Conditions that enable & empower people and/or the environment to thrive.

## Finance and Capital Markets: 2030 Impacts

Rubric	Rating	Positive developments (extract, exemplary)	Concerning developments (extract, exemplary)
<b>D2.</b> An accountable financial sector enables, conditions and rewards climate-positive practices, inclusion and equality		<ul style="list-style-type: none"> <li>Even investors with primary focus on generating value are increasingly considering ESG criteria. (Deutsche Bundesbank 2019, p.7)</li> <li>The Green Deal, EU Sustainable Finance Taxonomy etc. are hardwiring climate considerations in business and finance. (Delphi contribution)</li> </ul>	<ul style="list-style-type: none"> <li>Still big incentives for financial sector to only be 'a bit better' than the competition, because many externalities not priced in. (Delphi contribution)</li> <li>Mismatch in time horizons deeply embedded in today's financial system with real consequences re misallocation of capital away from long-term value creation. (EUHLEGSF 2018, p.12)</li> <li>Lack of central bank consensus regarding the nature of intervention in markets required. (NEF 2021 p.6)</li> </ul>
<b>D3.</b> Responsible businesses and industries are climate-positive and ensure inclusion and equality for workers, producers and communities		<ul style="list-style-type: none"> <li>It is becoming standard for many companies to set targets and start measuring results. (Delphi contribution)</li> <li>Alternative data sources and technology advances offer new ways to evaluate sustainability performance and make this information widely available. (GISD 2020, p.15)</li> </ul>	<ul style="list-style-type: none"> <li>Companies in oil and gas, utilities and transportation (automobile) sectors have gaps in planned capital allocation and technology mix to achieve climate targets. (CA100+ 2020, p.25)</li> <li>There is still a stark ambition gap - the pace needs to step up significantly. (CDP 2021, p.38)</li> <li>Disclosure requirements not globally harmonized and limited to climate metrics and don't include material SDG-related information and forward-looking data. (GISD 2020, p.16)</li> </ul>
<b>D4.</b> Active, organised workers and producers exercise power to secure climate-positive practices, inclusion and equality		<ul style="list-style-type: none"> <li>First signs that workers, producers and communities are beginning to seek a new political-economic system beyond traditional capitalism and traditional socialism. (Delphi contribution)</li> </ul>	<ul style="list-style-type: none"> <li>Power held among groups is minimal due to neoliberal extraction from labor and environment and corporate consolidation of wealth and power. (Delphi contribution)</li> <li>Workers are side-lined in social and environmental decision-making as (collective) bargaining power has been lowered as a result of rapid technology developments. (Delphi contribution)</li> </ul>

## Key Themes, Risks and Opportunities

**Key themes:** The EU taxonomy and action plan on the financing of sustainable growth, published in 2020, is expected to contribute to greater transparency. So far, however, “given the lack of generally accepted definitions of ‘green’ and ‘sustainable’ and insufficient transparency about their use, it is unclear how the strong market growth observed in the recent past will continue to develop” (Deutsche Bundesbank 2019, p.1). Also, “there are concerns that the binary nature of the taxonomy could prevent gradations in financing conditions, since the taxonomy itself does not reflect that economic activities can achieve various degrees of sustainability” (Deutsche Bundesbank 2019 p.14).

The higher rating of ‘partly conducive’ for the relevant rubric is testimony to steps financial markets have taken towards integrating sustainability considerations in capital allocation. “Climate change has moved from a fringe topic to a board level priority for the leading financial institutions in Europe. There have been significant investments to build new capabilities and major new statements have been made in the last 12-18 months. Yet the work required to fully embed this ambition within the plumbing of the financial system is only just beginning” (CDP 2021, p.21).

Many studies conclude that existing mechanisms do not consistently direct capital flows towards Environmental, Social and Governance (ESG) objectives. “Current levels of investment are not sufficient to support a climate-resilient, sustainable economic system that mitigates climate change and stops depletion of natural capital (air, water, land and biodiversity)” (EUTEGSF 2019a, p.16). Several studies identify businesses’ willingness to adapt to sustainability imperatives but note conflicting priorities and objectives. This creates a mismatch between the activities of financial markets and the business world. “Banks representing 95% of all lending to European corporates have such an ambition [to be Paris-agreement-aligned], even as the necessary metrics, data, and processes are still being built. This contrasts with just 8% of European corporations having set targets in line with a well-below 2°C rise. This has created a gap of more than €4 trillion between the lending that banks plan to align with Paris and the current available demand for such financing” (CDP 2021, p.5).

The current treatment of climate-related risks and legal disclosure requirements are central aspects of achieving a wholesale transition towards more sustainable practices in financial markets and the economy at large. “The credit agencies that determine the ratings of bonds have not so far adequately accounted for...climate risks in their assessments” (NEF 2021 p.20). “Overall, despite the growing acknowledgment that climate-related risks in particular deserve attention from a prudential risk management perspective, the actual incorporation in the risk management framework, the development of proper risk management functions to handle these risks and the elaboration of robust risk identification and assessment tools are still at preliminary stages” (EBA 2020, p.39).

The short-listed studies identify innovation in the way sustainability data is gathered and analysed, including a stronger focus on “forward-looking data” (GISD 2020 p.14) as a key part of the equation. “Alternative data sources and technology advances offer new ways to evaluate sustainability performance and make this information widely available.... making it easier for investors to evaluate corporate sustainability performance without reliance on corporate disclosure.... However, many of the available data innovations are prototypes, and end-users are still discovering the breadth of applications that such approaches provide” (GISD 2020, p.15). Ratings at the lower end of the scale, however, are also partly due to what several studies identify as a risk of equity and inclusion objectives being difficult to incorporate into artificial intelligence-enabled data analysis tools. “To avoid new forms of financial exclusion, regulators should work to ensure an ethical and responsible use of AI and mitigate for potential biases and discrimination” (UNIATFFD 2020, p.26).

Ensuring a just transition is a key theme in relation to equity and inclusion concerns. “Achieving the SDGs [Sustainable Development Goals] and a net-zero future requires reallocation of public and



private resources across countries, economic sectors and social segments. Without attention to the most vulnerable groups, however, the transition will result in increased social and economic stress. It is thus essential for policymakers to establish a conceptual framework for fairness and to use public financial resources in the most efficient and catalytic way possible to implement that just transition framework” (GISD 2020, p.27).

Finally, “Action in the financial system cannot substitute for... fundamental measures that may include changes in taxation and subsidies. Rather, financial system action can ensure that capital markets respond to these and other signals (such as technological change, physical disruption and social expectations), thereby anticipating change in the real economy and allocating capital faster and more efficiently” (EUHLEGSF 2018, p.11). The extent to which the ‘market neutrality’ principle suggests that markets must not be distorted continues to guide financial policy making and blocks active measures to climate-align monetary policy instruments (see NEF 2021, p.6). In other words, fiscal policies more generally have not created the overarching policy framework yet to allocate risks and rewards from economic activity in a more sustainable way.

### Evidence Gaps and Weak Signals Revealed by the Literature Review

Few studies had much to say about the social aspects of ESG objectives. The conceptual difficulty of identifying how financial and capital markets affect inclusion and equity is illustrated in the wide gap between a focus on financial inclusion as a highly specific technical aspect in one study, and a discussion of the distribution of risks and rewards in the economy more widely in another study. It will therefore be important not to lose sight of the bigger picture of the global economics that govern industries and states and are reflected in developments in finance and capital markets.

Participants in the expert workshop, for their part, acknowledged the existence of weak signals in the form of community-led experimentation with new economic models. While not yet reflected in wider changes in finance and capital markets, they were seen as a space in which these two perspectives, the specifics of individual business models and the general challenge to dominant economic frameworks, are integrated and are therefore worth keeping on the radar.

A weak signal that could have a substantially greater impact on the industry was also identified in the expert workshop, namely the role of digital currencies. Seeing that these have the potential to fundamentally undermine state-led regulatory frameworks, they warrant ongoing attention as a possible disruptive element.

### Opportunities to advance the outcomes:

Regarding climate-related outcomes, the studies reviewed for this baseline assessment identified an increase in responsible/sustainable financial products and strategies (OECD 2020, p.120) and pointed to green bonds as an opportunity to provide sector-wide market signals and incentives (NEF 2021, p.4).

Some research notes that calls for non-voluntary principles and standards are getting traction (NGFS 2020, p.18, see also GISD 2020, p.6; UNIATFFD 2020, p.xviii). Similarly, expert workshop participants identified an opportunity in recognising that a degree of uncertainty and imperfect metrics are part of the challenge, which led them to call for using existing metrics as effectively as possible. In combination with evidence pointing to alternative data sources and technology advances as offering new ways to evaluate sustainability performance and make this information widely available (GISD 2020, p.15; UNIATFFD 2020, p.xviii), this may be seen as an opportunity to accelerate progress.

According to experts at the workshop, low interest rates are reducing the effect of discounting the future, thereby creating an advantage for certain low-carbon investments (e.g., renewable energy with



much lower running costs than fossil fuel technologies). Combining those developments with a growing interest in the finance and capital markets, especially among bankers, to work together in innovative ways to move their institutions as well as the industry and solve the climate issue (e.g., Climate Safe Lending Network), also opens an opportunity to shift investments into more sustainable propositions.

With regard to opportunities for equity and inclusion, evidence from the literature review points to a post COVID-19 window to disrupt the status quo and embed long-term thinking and sustainability commitments into core corporate practices and investment behaviour (GISD 2020, p.21).

The Finnish Government's Resolution on State Ownership Policy, which enshrines expectations for companies to set value leadership and corporate social responsibility examples (OECD, p.156), is an example of the types of actions that might be conducive to making the most of such opportunities.

### **Threats that inhibit progress:**

On climate-related issues, contributions to the Delphi survey flagged Europe's multiple looming crises (e.g., Eurozone stability, migration, rule of law) as serious threats to the implementation of the highly ambitious agenda of the Green Deal. The rise of political populism and fact-free politics in the EU, which could erode even the perceived need to work on things like 'climate' was cited as an example at the expert workshop.

Such developments are exacerbated by a lack of central bank consensus regarding the nature of intervention in markets required to align the collateral framework and monetary policy with climate goals as identified in the literature (NEF 2021, p.6).

The diversity of metrics used, and poor data quality and availability, also continues to hinder effective analysis (GISD 2020, p.5).

Regarding equity and inclusion, the literature review suggests that digital assessment tools also exacerbate social inequalities and biases (UNIATFFD 2020, p.25). Similarly, low interest rates can exacerbate short-termism, resulting in corporations loading up on debt and increasing pay-outs to investors rather than changing business practices for the better (PRE 2021, Delphi).

## Built Environment: An Unconductive Status Quo

“The built environment industries as a whole have structural challenges that slow change, including on climate: tight budgets and timeframes, multiple layers of subcontractors, “silos” between different actors, and a lack of diversity.” (Expert comment from Delphi)



“There... seems to be an interest in developing a quick fix, rather than engaging with the scale of the problem.” (Expert comment from Delphi)



**The final ratings indicate that the steps taken so far have been largely ‘unconductive’ across all the rubrics. Evidence of voluntary standards and growing traction for certification schemes, as well as the development of frameworks to guide further activity, allowed for a rating above ‘harmful’.**

Neither climate-positive practices, nor equity and inclusion have seen much progress among key stakeholder groups relative to the levers reflected in the rubrics. There is no evidence that the financial sector is pulling its weight in issuing relevant market signals, or that stakeholder interactions are contributing to a power shift towards workers, producers and communities as a potential counterweight to entrenched interest groups.

The rating of ‘unconductive’ for the industry reflects strong inertia in moving beyond short-term profit motives, itself the result of ineffectual industry standards and limited legislative efforts to regulate for better performance. However, some evidence of changing business practices, including growing traction for voluntary standards and certification schemes, meant the industry was rated slightly better than ‘harmful’. But the evidence highlights the need for a major shift – including through market signals mediated by finance – towards decarbonisation as opposed to energy efficiency of buildings alone, to fully achieve climate-positive practices.

Note: The following table provides examples of evidence across all sources used in arriving at the rubric ratings. Any reading of the table needs to be informed by direct reference to the specific indicators included in the Laudes Foundation’s Rubrics (Laudes Foundation 2021), as well as a consideration of the multi-step triangulation process involved in arriving at the final ratings (detailed information can be found in the Annexes to this report). The following table only provides an impression of pieces of evidence related to each rubric.

**Harmful**  
Conditions that cause or perpetuate suffering, harm, serious and/or life-threatening problems





**Unconductive**  
Conditions that are barely survivable, cause stress & other environmental or health problems.

**Partly Conductive**  
Conditions that protect some of the people or environment, but have serious gaps.

**Conductive & Supportive**  
Conditions that support the health & wellbeing of people and/or the environment.

**Thrivable**  
Conditions that enable & empower people and/or the environment to thrive.

## Built Environment: 2025 Outcomes

Rubric	Rating	Positive developments (extract, exemplary)	Concerning developments (extract, exemplary)
<b>C1a.</b> Policymakers reform, implement, enforce and protect critical laws and policies that require climate-positive practices		<ul style="list-style-type: none"> <li>Several European countries have conducive regulation that is being enforced (e.g. building energy codes, incentives for efficient new buildings, financial mechanisms through national development banks for renewable energy integration and building upgrades). (Delphi contribution)</li> </ul>	<ul style="list-style-type: none"> <li>Urgent need for countries to adopt more explicit actions and pathways to decarbonize building stock in line with the Paris Agreement. (UNEP 2020a, p.31)</li> <li>Voluntary policies must become mandatory and must be enforced. (WorldGBC 2019, p.32)</li> <li>Subsidies for extracting virgin resources or inconsistencies in policies between neighboring jurisdictions prevent level playing field for circular solutions. (WBCSD 2018, p.22/23)</li> </ul>
<b>C1b.</b> Policymakers reform, implement, enforce and protect critical laws and policies that require equity and inclusion		<ul style="list-style-type: none"> <li>Key principles for designing/ maintaining effective public spaces that uphold gender equality, safety, identity and culture, economic opportunity and other aspects have been set out. (IHRB 2019, p.41)</li> <li>Leading sustainability certification schemes in the construction industry include Post-Occupancy Evaluation as criterion and follow-up mechanism. (RAM 2021b, p.39)</li> </ul>	<ul style="list-style-type: none"> <li>Planning policies and development permits are fundamentally flawed, fostering inequality by pushing up land and property prices. (Delphi contribution)</li> <li>More targeted and equity-sensitive implementation of environmental interventions and planning policies needed to ensure that resources are allocated according to need, targeting areas and population groups that suffer most from environmental risks. (WHO 2019a, p.25)</li> <li>Many cities and national governments operate in isolated way - integrated approach needed focusing on employment, affordable housing, education etc., that often sit in different departments. (Delphi contribution)</li> </ul>
<b>C2a.</b> Financial sector actors use their influence, policies, practices and valuation methodologies to ensure climate-positive practices		<ul style="list-style-type: none"> <li>Growing number of investors taking longer term approach sending signal to the real estate, construction and engineering firms re importance of respecting human rights. (IHRB 2019, p.35)</li> <li>Many managers and investors have made decarbonisation pledges – now and are working on implementation. (Delphi contribution)</li> </ul>	<ul style="list-style-type: none"> <li>Real estate valuations only look backward. (Expert workshop)</li> <li>For every \$1 spent on energy efficiency, \$37 is spent on conventional construction approaches. (UNEP 2020a, p.7)</li> <li>Financial incentives and products almost exclusively targeted at reducing operational carbon through energy efficiency improvements and renewables. (WorldGBC 2019, p.36)</li> </ul>
<b>C2b.</b> Financial sector actors use their influence, policies, practices and valuation methodologies to ensure equity and inclusion		<ul style="list-style-type: none"> <li>2014 to 2020 over EUR 115 billion EU funds invested in cities' sustainable urban mobility, energy efficiency, urban renewal, research and innovation capacity, and economic and social regeneration of deprived communities. (Eurostat 2020, p.205)</li> </ul>	<ul style="list-style-type: none"> <li>Risks that technological innovation and a “smart city” approach to urban development can deepen existing inequality. (IHRB 2019, p.62)</li> <li>Economic incentives (e.g. for renovation, lack of awareness of social inequities arising from the decarbonisation of the built environment) act as obstacles to change. (RAM 2021a, p.15 &amp; 21)</li> <li>No evidence how social impact supports financial returns (over the longer term) and right metrics are missing. (Delphi contribution)</li> </ul>

## Built Environment: 2025 Outcomes

**Harmful**  
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**Conductive & Supportive**  
Conditions that support the health & wellbeing of people and/or the environment.

**Thrivable**  
Conditions that enable & empower people and/or the environment to thrive.



Rubric	Rating	Positive developments (extract, exemplary)	Concerning developments (extract, exemplary)
<b>C3a.</b> Businesses promote and implement bold, climate-positive policies, models and practices		<ul style="list-style-type: none"> <li>Elements of the circular built environment are already emerging. (WBCSD 2018, p.23)</li> <li>Leaders in the field of net zero embodied carbon in construction have demonstrated that they can help drive change beyond their own organisations. (WorldGBC 2019, p.34)</li> </ul>	<ul style="list-style-type: none"> <li>There is hesitation in the application of Emerging/ Innovative technologies. (RESTORE 2019, p.80)</li> <li>Cross-cutting barriers preventing the mainstreaming of the circular built environment must be addressed to achieve progress. (WBCSD 2018, p.23)</li> <li>"Starchitect" focus on major architectural players and big projects which distracts from the ground-up wider changes needed. (Delphi contribution)</li> </ul>
<b>C3b.</b> Businesses promote and implement bold, climate-positive policies, models and practices that contribute to equity and inclusion		<ul style="list-style-type: none"> <li>In response to civil society pressure, governments and companies have been taking important steps to address these issues, sometimes in close partnership with relevant trade unions (e.g. Building Responsibly Principles). (IHRB 2019, p.54)</li> </ul>	<ul style="list-style-type: none"> <li>Many urban planning and design fields continue to be dominated by men. (IBRD 2020, p.29)</li> <li>Concerted business action on working conditions and modern slavery still limited to relatively small group of companies. (IHRB 2019, p.55)</li> <li>Top-down financing of built environment/ investors seeking high short-term returns squeezing rest of industry actors on budget and time - investment mostly in high-end housing, retail which deepens inequality. (Delphi contribution)</li> </ul>
<b>C4a.</b> Workers and producers claim rights and build power to organise and advocate for climate positive policies and practices		<ul style="list-style-type: none"> <li>Great pioneering examples of democratized horizontal peer-leadership emerging (e.g. UK LETI initiative). (Delphi contribution)</li> </ul>	<ul style="list-style-type: none"> <li>Low demand contributes to low investment in skills and capacity building across the value chain. (WorldGBC 2019, p.35)</li> <li>Architects need to understand the lifecycle costs involved when their role also includes developing a business case. (WBCSD 2018, p.16)</li> <li>Demand from workers and communities starting to increase, but not yet an effective force to cause real concern. (Delphi contribution)</li> </ul>
<b>C4b.</b> Workers and producers claim rights and build power to organise and advocate for equity and inclusion		<ul style="list-style-type: none"> <li>Growing focus on health in the built environment, incl. impacts on health of residents and workers constructing the buildings. (RAM 2021a, p.18)</li> </ul>	<ul style="list-style-type: none"> <li>Sexual harassment on building sites continues to be pervasive. (IHRB 2019, p.55)</li> <li>Lack of inclusion of the most marginalised groups in decision making acts as obstacle to change. (RAM 2021a, p.9 &amp; 15)</li> <li>Lots of creative organizing going on but balance of power with financial interests and dominant industries/ business, not workers and communities. (Delphi contribution)</li> </ul>

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Conditions that cause or perpetuate suffering, harm, serious and/or life-threatening problems





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**Partly Conducive**  
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Conditions that support the health & wellbeing of people and/or the environment.

**Thrivable**  
Conditions that enable & empower people and/or the environment to thrive.

## Built Environment: 2030 Impacts

Rubric	Rating	Positive developments (extract, exemplary)	Concerning developments (extract, exemplary)
<b>D1.</b> Bold policy and regulatory frameworks have created the foundation for a new economy grounded in climate-positive practices, inclusion and equality		<ul style="list-style-type: none"> <li>National regulation on energy performance has incentivised market to produce high energy- efficient products (e.g. insulation, windows, facade materials etc.). (RAM 2021b, p.19)</li> <li>Some cities making strides in gender-inclusive planning and design. (IBRD 2020, p.12)</li> </ul>	<ul style="list-style-type: none"> <li>Policies and measures in force unlikely to significantly accelerate the rate and depth of renovation in line with need to achieve highly energy efficient and fully decarbonised building stock by 2050. (BPIE 2021b, p.49)</li> <li>The speed of innovation exceeds the speed of policy and regulation development, which can result in a barrier for innovation. (Arcadis 2019, p.35)</li> <li>Without policies as driving force of societal change, the short or medium term mechanisms of growth and competition will not be able to evolve in time. (Delphi contribution)</li> </ul>
<b>D2.</b> An accountable financial sector enables, conditions and rewards climate-positive practices, inclusion and equality		<ul style="list-style-type: none"> <li>Institutional investors becoming more and more involved early on in planning and development process bringing the long-term perspective. (Delphi contribution)</li> </ul>	<ul style="list-style-type: none"> <li>Enablers (e.g. financial sector) expected to take at least a decade before experience with e.g. circular economy and climate change mitigation has become mainstream. (Arcadis 2019, p.36)</li> <li>Financialisation results in evictions and displacement as informal settlements are replaced by luxury residential and high-end commercial real estate. (IHRB 2019, p.39)</li> <li>Slower maturity speed of new developments because of project driven nature of sector with short time focus. (Arcadis 2019 p.37)</li> </ul>
<b>D3.</b> Responsible businesses and industries are climate-positive and ensure inclusion and equality for workers, producers and communities		<ul style="list-style-type: none"> <li>Rising momentum within the building sector towards low carbon transition (e.g., awareness/ willingness to tackle embodied carbon shifted very significantly in the last 3-5 years. (Expert workshop)</li> <li>Circularity and circular principles beginning to gain traction. (Delphi contribution)</li> </ul>	<ul style="list-style-type: none"> <li>The sector typically solves challenges in a conservative way (culture), incentives for approaches beyond compliance (regulations) are limited, and change depends on adoption of suppliers who have limited awareness of circular alternatives. (WBCSD 2018, p.24)</li> <li>Key challenges in addressing gender-related inequities in the urban built environment remain unsolved. (IBRD 2020, p.14)</li> <li>Given complex business relationships and generally acknowledged lack of transparency in real estate and construction, risks of corruption high. (IHRB 2019, p.44)</li> </ul>
<b>D4.</b> Active, organised workers and producers exercise power to secure climate-positive practices, inclusion and equality		<ul style="list-style-type: none"> <li>EU achievements in improving quality of life in cities/ communities. (Eurostat 2020, p.205)</li> <li>Inclusion of 'minimum safeguards' in EU taxonomy embedding this concept in policy. (Delphi contribution)</li> </ul>	<ul style="list-style-type: none"> <li>Little attention for social impacts of built environment sector, in particular from perspective of respect human rights. (IHRB 2019, p.11)</li> <li>Failure to use existing participation and platforms acts as obstacle to change for community and end users. (RAM 2021a, p.10)</li> </ul>

## Key Themes, Risks and Opportunities

**Key themes:** The industry's current performance is seen as poor due to considerable systemic inertia. Considering the scale and pace of change, the studies reviewed saw the structure and culture of the built environment industry as an obstacle to a step change towards more sustainable practices. "In a sector that typically solves challenges in a conservative way (culture), where incentives for approaches beyond compliance (regulations) are limited, and that depends on the adoption of suppliers who have limited awareness of circular alternatives, the market will not reach a scale in which circular becomes more favourable than the linear convention today" (WBCSD 2018, p.24). Moreover, the highly fragmented value chain hinders the development of more holistic solutions. Enabling circular economy business models, such as incorporating service elements into value chains and leveraging digital technologies to increase transparency, including on environmental and social aspects, are seen as key parts of restructuring supply chains (see Arcadis 2019, p.18).

Legislation and regulation are considered particularly important, and yet, the verdict tends to be that it is playing catch-up and has very limited effectiveness so far, with certification tending to be the means of choice rather than legislation. While used extensively, the diversity of tools and approaches hinders a concerted effort: "2020 has seen continued growth in the number of green/sustainable building certification standards... and more buildings than ever are being certified. Globally, major certifications such as LEED, BREEAM, Passivehouse, DGNB, and EDGE continue to be widely used. However, there are many regional and national level standards that are being applied" (UNEP 2020a, p.37). However, following a period in which market mechanisms were deemed most effective in driving sustainability innovation, legislators are now stepping in to develop frameworks suited to guide the increasing complexity of choices: "The level(s) framework [which provides a set of common indicators and metrics for measuring the environmental performance of offices and residential buildings]... can become a leading framework in the next decade and influence standards such as BREEAM, WELL Building and LEED.... It is yet unknown when it will be effective, but it can be expected that it will be a relevant framework in 2030" (Arcadis 2019, p. 36).

A particular issue identified in the studies that leads to the frequent 'unconducive' ratings is the fact that energy efficiency standards are emphasised over addressing embodied carbon, which hinders a shift towards greater circularity in the use of materials. Legislation is widely considered necessary to drive the shift towards circularity, but this is so far falling short. "Legislation needs to drive market mechanisms aiming at incentives that create benefits for circular solutions over linear solutions.... Examples of barriers that prevent a level playing field for circular solutions are subsidies for extracting virgin resources or inconsistencies in policies between neighboring jurisdictions" (WBCSD 2018, p.22/23).

While studies made little reference to the financial industry, a key message was that "banks and financial institutions need to adapt their business model and their products to support the circular economy" (WBCSD 2018, p.22). While one study ventured that "it is now more widely accepted that maximizing returns goes hand-in-hand with minimizing environmental impact..., enticing developers to green their buildings while sparking interest from commercial tenants and homebuyers" (UNEP 2020a, p.43), the general picture of "energy efficiency investment growth... not keeping pace with the construction of buildings globally, leading to little change in final energy use in global buildings stock" (UNEP 2020a, p.40).

The outlook for change at scale, as reflected in the short-listed studies, is not overly optimistic, with one study suggesting that "analysis [of current Member State strategies], representing over 50% of the EU population... points to a clear misalignment between LTRS [long-term renovation strategies] and EU

2050 Climate Objectives.... This means that the substantial increase in renovation activity that is required – a deep renovation rate of 3% annually by 2030, is unlikely to be achieved” (BPIE 2021, p.4).

Relatively little attention is given to the equity and social inclusion rubrics in the literature reviewed. Where it is, reference is made to overarching frameworks and principles, including urban development, but very limited change on the ground. “The concept of universal design means creating spaces that meet the needs of all people – young and old, able and disabled” (IHRB 2019, p.49). Legislation relating to labour conditions, where some change is occurring, is the exception. “Local and national governments are introducing legislation to clamp down on trafficking and forced labour in construction and other industries – and to require that companies disclose the steps that they are taking to address modern slavery risks” (IHRB 2019, p.55).

### Evidence Gaps and Weak Signals Revealed by the Literature Review

Considering the coverage of different rubrics in the identified literature, little attention is paid to the equity and social inclusion rubrics. Where evidence exists, it tends to refer to overarching frameworks and principles, including urban development, but very limited actual change on the ground. Beyond working conditions in the construction sector, which do receive some attention, appropriate framing of the issues appears to be elusive, which might explain the limited evidence base. Reflections from the expert workshop cited above suggest that it might be a case of having to home in on the very economics governing real estate that could provide more robust evidence and insights.

More generally, considering momentum for change for the climate-related rubrics too, the expert workshop discussed how cities had a ‘melting pot’ function that could lead to a power shift towards communities, workers (and consumers) and small local businesses. While this might lead to a reframing of the role of the built environment in sustainability goals, so far there is limited evidence to suggest a true burgeoning of such a movement.

The expert workshop also highlighted the potential of impact investment in driving change. Discussions at the workshop suggested that such impact must, by definition, be highly localised and adopt a long-term perspective. As a result, there is a danger of any weak signals of this happening being drowned out by the overwhelming evidence of very limited shifts in the role of the financial industry. It is therefore worth monitoring for weak signals of change.

### Opportunities to advance outcomes:

According to experts at the workshop, circularity creates an opportunity to advance both climate goals and equity and inclusion by reducing the risks inherent in long supply chains and potentially creating local jobs.

Looking specifically at opportunities related to climate outcomes, the literature points to rising momentum within the built environment sector towards a low-carbon transition (UNEP 2020a, p.24), as exemplified by increasing awareness of and willingness to tackle scope 3/embody carbon. The experts confirmed that this has shifted significantly in the last 3-5 years while the studies reviewed for this baseline assessment suggest that circularity and circular principles are beginning to gain traction (Ramboll 2021b, p.5).

Renewable energy, meanwhile, has overtaken coal as a fuel source (UNEP 2020a, p.20) and institutional investors are pushing on climate action. As pointed out by the experts at the workshop, the latter are becoming increasingly involved early in the planning and development process, thereby introducing a long-term perspective. The International Finance Corporation, for instance, focusing on green buildings and retrofits can be seen as a possible catalyst and guidepost for markets (UNEP 2020a, p.43).



On equity and inclusion, EU achievements in improving the quality of life in cities and communities (Eurostat 2020, p.205) alongside the inclusion of 'minimum safeguards' in the EU taxonomy, thereby embedding this concept in European policy can be seen as a positive sign. The experts pointed out that the key focus now is implementation.

There are early signs that social equity is beginning to emerge as an issue in relation to the built environment (Ramboll 2021a, p.6), as illustrated by rising attention to and work on increasing safety for women and girls in urban areas (IHRB 2019, p.43; IBRD 2020, p.12).

Initiatives to introduce good design principles across the price range, from low-cost and social to luxury housing (IHRB 2019, p.40) is an example of how these opportunities might be brought to bear in practice.

### Threats that inhibit progress:

The ability of measurement alone to bring about change is limited by a mismatch with the need for a fundamentally new economic paradigm. As workshop experts noted, the economics of the built environment sector are the key obstacle. Real estate valuations, for instance, only look backward. So, measurement can only be a lever to generate more fundamental momentum for change. The experts' advice was to get tactical and technical in addressing this.

Specifically considering threats to any progress towards climate goals, the experts urged caution regarding the potential of certifications. The main problem was not their narrow focus, but the fact that they reached only about 10% of the market.

Complex value chains and fragmentation, identified in the literature (Ramboll 2021b, p.12) and confirmed by the experts, together with a lack of feedback loops in the design and delivery of projects, are slowing the industry's ability to learn and improve and holding the sector back. In addition, there is evidence of a knowledge gap regarding the maintenance of green buildings (RESTORE 2019, p.98).

According to the experts, regulation is still not supporting the speeding up of progress and is often an impediment. As a result, energy use and carbon neutrality in the context of material extraction, construction and operational use, for instance, remains a key concern in the literature (ARUP 2018, p.13; BPIE 2021, p.7; Ramboll 2021b, p.5; UNEP 2020a, p.4, p.23).

Considering equity and inclusion, the evidence suggests that women, girls, and sexual and gender minorities remain underrepresented in the workforce and have extremely limited opportunities to engage with decision-making (IBRD 2020, p.29; IHRB 2019, p.55), which holds the sector back.

With the standing of an informal workforce in a highly competitive sector highlighted as affecting working conditions and labour rights in the literature (IHRB 2019, p.53), a lack of collective understanding and shared language of social equity in the built environment (Ramboll 2021a, p.4), further inhibits the creation of social impact. The expert workshop discussions suggested that delivering such impacts requires a very local approach, often working in partnership with local social organisations. These often speak a different language than global financial institutions, which approach real estate from a financial/investment perspective only.



## Conclusion and Outlook: No Time to Waste in Facing the Need for Radical, Rapid and Large-Scale Systems Change

**“Things are beginning to change but not nearly fast enough.”<sup>15</sup>**

**“The reality... is that we are not ambitious enough.” (Expert interview)**

**“It’s not that we are not moving in the right direction, it’s that we are moving too slow.” (Expert interview)**

The research undertaken for the Laudes Systems baseline focused on three industries: fashion, finance and capital markets, and the built environment. The analysis and triangulation of results from all elements of research have delivered clear assessments for each of the outcome and impact rubrics as applied to each sector individually. While we stay clear of juxtapositions of the industries – the results generated by this assessment do not lend themselves to a direct comparison – issues emerge that are of critical importance across the three industries. Thus, over and above taking the temperature of each industry individually, it is possible to identify cross-cutting themes that are worth highlighting in conclusion.

1. The evidence reviewed for this study paints a picture of considerable systemic inertia that leads to a strong degree of cognitive dissonance, with lip service to forward-looking sustainability agendas by players throughout the four arenas for change (as identified in the rubrics system) but very limited scope in practice to introduce a step change.
2. The mechanisms by which accountability for climate impact and issues of equity and inclusion can be achieved are a concern. While a strong emphasis rests on metrics in achieving transparency, these remain complex; can be instrumentalized, for example, for greenwashing purposes; and cannot be relied upon as a singular principle means to drive change.
3. Businesses tend to be seen as key actors in changing practices, thereby reducing climate impacts and contributing to greater equity and inclusion. Voluntary certifications and standards abound but have so far delivered little clarity or rigour in actual decision-making, with questions surrounding their overall effectiveness.
4. Hence, it is recognised that without robust policies and regulation businesses alone, operating as they are along long and often fragmented supply chains and within the straightjacket of existing economic models that prioritise a short-term profit motive and shareholder value, will not bring about sufficient change. Yet, the overriding assessment is that policymakers, even in Europe, which is seen as leading the way in many respects, have work to do to establish more robust, clear, and impactful legal frameworks to guide more far-reaching efforts than visible today.
5. Beyond the technical complexity, the evidence also suggests that conceptual difficulties in understanding interdependencies between different actions and identifying unintended consequences of different choices is impeding progress, e.g., in devising respective policy frameworks. This is not least the case regarding unpacking how the burdens from a transition

<sup>15</sup> Fashion Revolution 2020a, p.37, reconfirmed by similar other findings in literature and from experts, across industries.

towards more sustainable ways of conducting business and meeting the needs of individuals and communities could be allocated fairly.

Reading across the individual industry assessments, progress clearly has been made in some areas, and examples of available transformation approaches abound. However, much still needs to be done to deliver systematically targeted outcomes and impacts. This will require action by all actors and stakeholders in these industries and within policy making and society at large. This change needs to be much faster and much more radical than it has been to date if the timeline for reaching a thrivable position by 2030 is to be met. The heavy lifting involved in achieving fundamental systems change still lies ahead and will need to happen at a much faster pace than what has been achieved so far. A focus on removing barriers and creating appropriate economic incentives to drive all sustainability objectives across the industries is likely to be a big part of the solution to tackle both the climate and inequality crises.

There is progress, but it has not been enough to reach the aims outlined by Laudes Foundation. Seeing that efforts to instigate change date back decades, the issue is not just to achieve a thrivable position by 2030.

Against this backdrop of complexity, the assessments in this exercise provide valuable information the Laudes Foundation can use not only to identify key levers for their contribution to driving change but also to introduce further clarity into the systemic understanding of the change required through its Theory of Change.

The evidence regarding the specific roles of different stakeholders and actors provide an opportunity to identify how existing and new Laudes partners might contribute to achieving sustainability and equity objectives in the three industries. Working in partnership with key organisations, the main themes per industry combined with threats and opportunities can help appraise where potential 'quick wins' might be found and where a longer time horizon and larger investments might be needed to introduce a step change into the three industries.

Moreover, these findings may highlight an option for Laudes to prioritise resources by either focusing on areas that only need a (relatively) little push to reap real results, or by focusing on those areas that need drastic action by making use of their potential role as convenor to orchestrate the change needed and catalyse the necessary investment by acting as a first backer of key approaches.

**A final word:** The Theory of Change is undoubtedly valuable to provide conceptual clarity, introduce structure into strategic trajectories and monitor progress. Using the Theory of Change together with the rubrics, with their mixed methods approach combining qualitative and quantitative measures, puts the Laudes Foundation in a pivotal position to look beyond purely quantitative metrics and offer a more holistic perspective of what is being achieved, and how further gains can be made.

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