For professional investors

COUNTRY SUSTAINABILITY RANKING

Update – Summer 2021

Country Sustainability: Visibly harmed by Covid-19

Sustainable Investing Expertise by ROBECOSAM

RobecoSAM
For over 25 years, RobecoSAM has been at the forefront of sustainable investing. Today, it is Robeco's sustainability ingredient brand, used to designate selected SI intelligence and research.

RobecoSAM-labelled strategies guarantee a state-of-the-art impact approach. This is true of all our sustainable thematic strategies, but applies equally to our equity and fixed income impact strategies. All of these strategies have been designed to have a positive, measurable impact on the environment and society and to contribute to the UN's 17 Sustainable Development Goals (SDGs).

More than two decades of sustainable investing research have equipped us with the tools and the unique expertise needed to define financially-material ESG information, integrate it into a wide range of investment products, and measure its impact. RobecoSAM designates Robeco's range of rankings of both companies and countries in terms of their sustainability to help investors make responsible choices.

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About this report

This semi-annual report provides a succinct summary and analysis of the environmental, social, and governance (ESG) profiles of 150 countries around the globe. It builds on the results of the proprietary Robeco Country Sustainability Ranking (CSR) tool which collects and analyzes the relevant ESG data via a structured and comprehensive framework to calculate an overall country score.

The resulting scores offer insights into the investment risks and opportunities associated with each country and provide investors with a better frame of reference for making comparisons among countries and regions from a risk/ return perspective.

The summary outlined here complements findings gained from a more traditional country risk assessment and is particularly focused on integrating long-term perspectives. Please see the Appendix for further details regarding data indicators and methodology.

For a brief methodology overview or to request more comprehensive information, please visit https://www.robeco.com/en/key-strengths/sustainable-investing/country-ranking/

Author's note: ESG data contained in this report is as of April 2021, unless otherwise indicated. Commentaries, summaries and analyses are as of August 6, 2021.

Contents

ESG Scores in context

Covid-19's adverse impact on country sustainability becomes increasingly apparent

With Covid-19 still raging in many parts of the world, and the magnitude of its effects will not be fully known for some time. At this stage it is obvious that the pandemic has already had a very severe impact in a wide range of areas, reversing years of progress on poverty reduction and other areas of human development. It has revealed and worsened some enduring fault lines such as extreme inequality, underlying disparities in health care, education, and social welfare, as well as simmering social and political tensions. While advanced economies have been able to mitigate the dire economic consequences by massive fiscal support and monetary stimulus, less-developed nations did not have the necessary financial means to shelter their citizens from the economic hardship in the same way.

As a result, widespread discontent has bubbled up and a wave of social unrest is sweeping around the globe, from Brazil and Chile to Colombia and South Africa, just to name but a few. This is outlined in the country samples on Colombia and South Africa further down this report. In view of the ongoing Covid-19 induced humanitarian and economic stress, increasing disparities and eroding social cohesion, there is a significant likelihood that civil unrest and political instability will continue, with the resulting ramifications for the economic and country sustainability landscape. This would also be in line with the findings of recent IMF research, according to which past pandemics have led to an increase in social unrest and adverse effects on economic activity.[1,2]

Apart from inequality, pandemics, social unrest and political instability, climate change is another key ESG factor that will shape the global risk landscape over the years to come. It is true that after emissions had risen steadily for decades, the Covid-19 crisis triggered the largest annual drop in global greenhouse gas emissions in 2020 as the pandemic paralyzed economic and social activities. According to the IEA, global energy-related CO2 emissions fell by 5.8%, the largest percentage decline since World War II.[3]

However, this temporary slowdown does not yet indicate a turnaround with regards to climate change, as the level of emissions has already started to rise again with the economic recovery. More importantly, recent extreme weather events such as the flooding in Central China and Western Europe, heatwaves and widespread wildfires in South-Eastern Europe, Turkey, the West of the US and in Canada and Siberia, and the record drought in parts of Brazil, has all come as a stark reminder that climate change has not disappeared but remains a deadly risk.

Indeed, with a view to the COP26 event in Glasgow, 2021 has seen some renewed efforts to combat climate change. On July 14, the EU unveiled its most ambitious plan yet to fight global warming with a series of legislative proposals aimed at achieving carbon neutrality in the EU by 2050, with an intermediate target of a 55% net reduction in greenhouse gas emissions by 2030 compared to 1990's levels. In the US, the new Biden administration has brought about a significant change in the government's attitude towards the environment and climate change, including the decision to rejoin the Paris Agreement and a pledge to achieve the net-zero emissions target by 2050. Yet, the implementation of tangible climate policies remains very challenging as visible from the negative vote on a new CO2 law in Switzerland, or the wait-and-see attitude of policymakers in Australia, both of which are described in more detail below.

1. Metodij Hadzi-Vaskov, Samuel Pienknagura and Luca Antonio Ricci: The Macroeconomic Impact of Social Unrest. IMF Working Paper 21/135, May 2021.
2. Tahsin Saadi Sedik and Rui Xu: SA Vicious Cycle: How Pandemics Lead to Economic Despair and Social Unrest. IMF Working Paper 20/216, October 2020.
3. IEA: Global Energy Review: CO2 emissions in 2020. Understanding the impacts of COVID-19 on global CO2 emissions. IEA Article, 2 March 2021.

Global results and analysis

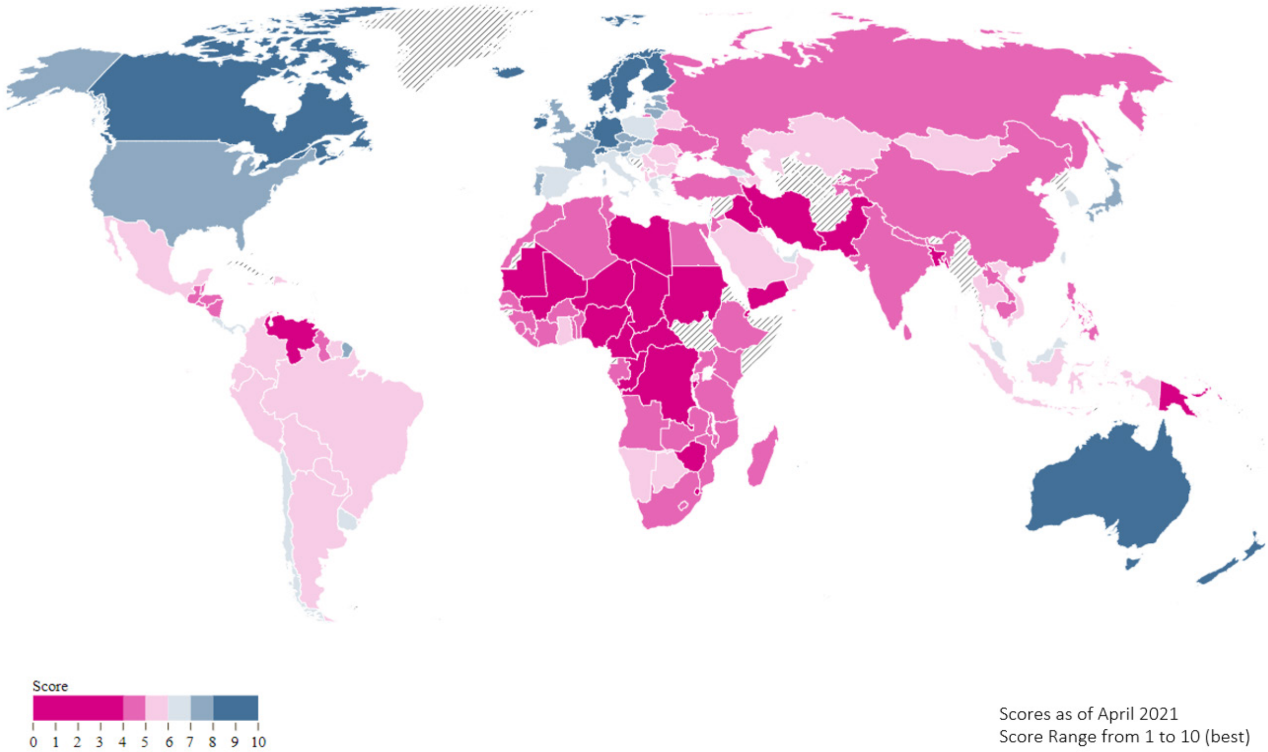
Scandinavian countries consolidate their leading positions

In Spring 2021, the Nordics continue to sustain their sustainability leadership in the world. Attaining an ESG score of 8.92 on a scale of 1 to 10 (best), Sweden tops the current Country Sustainability Ranking, just ahead of its Nordic neighbours Finland, Norway, Denmark and Iceland. Switzerland follows in sixth place with a score Of 8.54, just ahead of New Zealand – the best-ranked country outside of Europe. The top-ranking group (with an ESG score of 8.0 or higher) includes 13 countries, 10 of which are located in Europe. Apart from New Zealand, only Australia and Canada made it into the list of high-performing nations (see Figure 1). All these economies enjoy robust and well-balanced sustainability profiles across all three ESG dimensions and have displayed continuously strong sustainability performance since the start of our country sustainability database in 2000.

At the other end of the ranking is the group of 22 countries with scores below 4.0. All are emerging markets and belong to the low- and lower-middle income developing economies, except for Iraq and Libya (classified as upper-middle income economies) and Venezuela (temporarily unclassified due to the lack of revised national accounts statistics). Of the 23 developed countries covered by our analysis, 20 belong to the two top-tier ESG categories (scores of 7.0 or higher); only Greece, Italy and Spain are part of the medium-performing category (scores between 6.0 and 7.0).

A noticeable anomaly is the US, whose persistently disappointing sustainability performance during the Trump presidency has caused it to drop out of the top 20. From a score of 7.64 and rank of 18th at the start of the Trump administration, the country suffered a continuous decline in the score to 7.38 and rank 21st in April 2021, with a weakening performance in all three ESG dimensions. Still, with the inauguration of the Biden administration in January this year and the change in direction in various policy areas, there is a reasonable chance for this decline to come to a halt, or even be reversed over time.

Figure 1 | The global country sustainability ranking map



Source: Robeco

Singapore maintained its strong position as a leading emerging market country with an ESG score of 7.93 and a rank of 15th overall, ahead of European peers Estonia, the Czech Republic and Lithuania. Out of the group of 127 emerging and developing economies, only nine made it into the second-best category (scores between 7.0 and 8.0). Apart from Singapore and Hong Kong, they are all located in Europe. BRICS and other emerging heavyweights, such as Indonesia and Mexico, continue to display disappointing sustainability performance, especially considering their economic potential.[4]

Figure 2 | Top five and bottom five sustainability performers

TOTAL SCORE			DIMENSIONS			6M CHANGE	
	Country	Score	Governance 50% weight	Social 30%	Environmental 20%	Score Δ	Rank Δ
1.	Sweden	8.92	8.38	8.99	9.38	-0.01	0 —
2.	Finland	8.87	8.47	8.47	9.64	+0.03	0 —
3.	Norway	8.81	8.34	9.01	8.89	-0.02	0 —
4.	Denmark	8.77	8.38	8.97	8.69	+0.01	0 —
5.	Iceland	8.62	7.91	9.02	9.02	-0.06	0 —
97.	South Africa	4.78	5.76	3.47	4.44	-0.01	1 ↗
114.	India	4.37	5.39	3.99	2.66	+0.03	1 ↗
115.	Egypt	4.33	4.33	4.05	5.02	+0.04	3 ↗
139.	Nigeria	3.64	3.94	3.38	3.74	0	1 ↗
144.	Pakistan	3.41	3.99	3.53	2.27	-0.08	1 ↘
146.	Chad	3.22	3.10	3.36	3.86	-0.03	0 —
147.	Libya	3.20	2.67	3.47	4.67	+0.02	0 —
148.	Sudan	3.15	2.91	3.80	3.33	-0.02	0 —
149.	Central African Republic	3.08	2.65	3.17	4.60	+0.03	0 —
150.	Yemen	2.27	2.23	2.01	3.51	+0.04	0 —

Data source: Robeco

Data note: Country sustainability scores of April 2021; the five countries framed in the middle of the chart designate the bottom-five ranked emerging market countries within the investable universe among the top-50 economies in terms of nominal GDP.

Figure 2 displays the wide sustainability performance contrast between those at the top and bottom of the ranking. The countries that make up the bottom depends on which universe is being counted. The fully assessed universe is composed of 150 countries. South Africa, India, Egypt, Nigeria and Pakistan make up the lowest-performing countries when only considering the investable universe (defined as the top 50 economies in terms of nominal GDP in which one can invest). Unsurprisingly, the names at the end of the 150 countries ranking all involve highly fragile and dysfunctional states in Africa and civil war-affected Yemen on the Arabian Peninsula.

4. Brazil, Russia, India, China & South Africa.

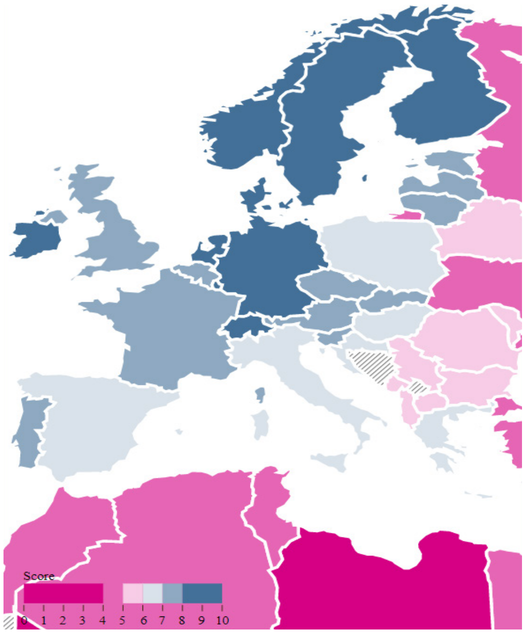
North-South divide

The sustainability landscape in Europe displays a distinct North-South divide, with Northern and Central European economies clustered at the top of the ranking while Southern European peripheral countries reveal more mediocre sustainability scores.

In addition, the map reveals a gap between the Western and Eastern parts of the continent, with Eastern European countries grouped mostly in the middle ESG categories. At the bottom lie the worst performers comprised mostly of the Balkan nations.

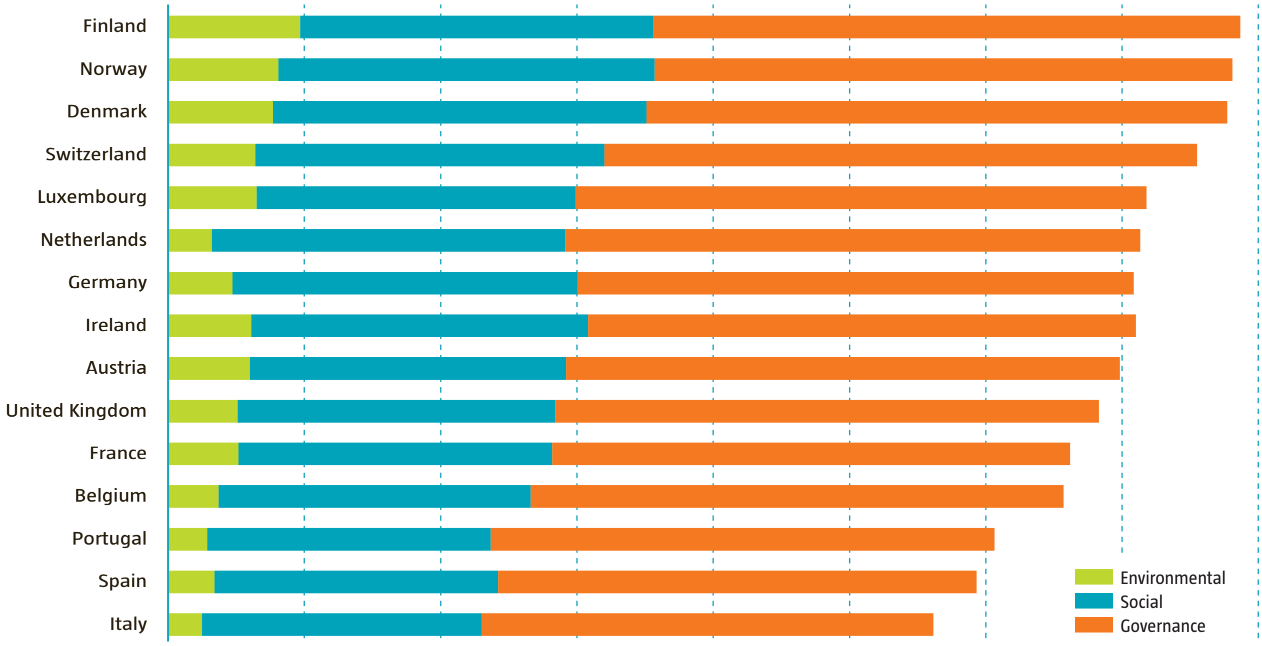
Figure 4 displays the score attribution to each of the three dimensions (E, S & G) for select European Government Bond (EGB) economies.[5] As can be seen, attributions for each ESG dimension differ from country to country. For example, Finland tops the environmental dimension, Norway the social and Switzerland the governance. The final sustainability country score and rank aggregates a country's performance across all three dimensions.

Figure 3 | Sustainability ranking in Europe



Source: Robeco. Scores as of April 2021.

Figure 4 | Selected European economies: ESG score attributions



Country ESG Score (1-10; 10=best); as of April 2021
Source: Robeco

5. European Government Bond (EGB) countries consist of the 16 countries included in the S&P ESG Pan-Europe Developed Sovereign Bond Index. They include Denmark, Norway, Sweden, Switzerland, the UK and developed countries in the Eurozone.

Movers and shakers

Figure 5 shows the countries with the biggest gains or losses in ESG scores over the preceding one-year and three-year observation periods. As in Figure 2, the graph does not cover all countries, but is limited to a universe of large investable economies in terms of nominal GDP. Hong Kong heads the ranking of the biggest losers also for the entire 150-country universe, largely due to China's increasing interference in the territory and the implementation of the national security law last year.

Except for the US and the UK, the countries exhibiting the largest losses are primarily emerging market economies which have repeatedly generated negative headlines. More detailed analysis of noteworthy sustainable developments in the US, Hong Kong and Turkey have already been outlined in the last Country Sustainability Ranking Update published in January this year.[6]

The Philippines has unfortunately suffered a setback during the past year, eroding much of the gains achieved previously. Natural disasters and the pandemic and the resulting economic hardship were the main triggers for a deterioration in political risk, social unrest and environmental performance. Argentina has seen its ESG score decline during the past year, primarily because of a deterioration in political risk, stability and social unrest, all of which are strongly related to the persistent economic hardship that has been aggravated by the Covid-19 crisis.

The decline of the ESG score in Pakistan is the result of small declines in various governance and social criteria, with social unrest showing the most notable deterioration. Ranked 144th, Pakistan remains the lowest-ranked country among the investable universe. Indonesia has seen a deterioration in aging, social conditions, and political risk in more recent years, wiping out some of the gains made in all three ESG dimensions in previous periods. Looking further back, the country reveals still displays a slightly higher ESG score (5.11) than five or then years ago (4.99 and 4.89 respectively), even though the overall performance remains rather disappointing when put in the context of the country's huge economic and human capital potential.

Among the positive movers, Ukraine (+0.23) and Nepal (+0.49) have outwitted the respective winners among the investable universe over the short- to medium terms. In the case of Ukraine this is largely because of improved assessments for political risk, political stability and social unrest. In the case of Nepal, it is mainly because of improvements in political risk, political stability, social conditions and environmental performance. However, irrespective of the progress made, both countries remain poorly ranked – Ukraine is 87th and Nepal 104th.

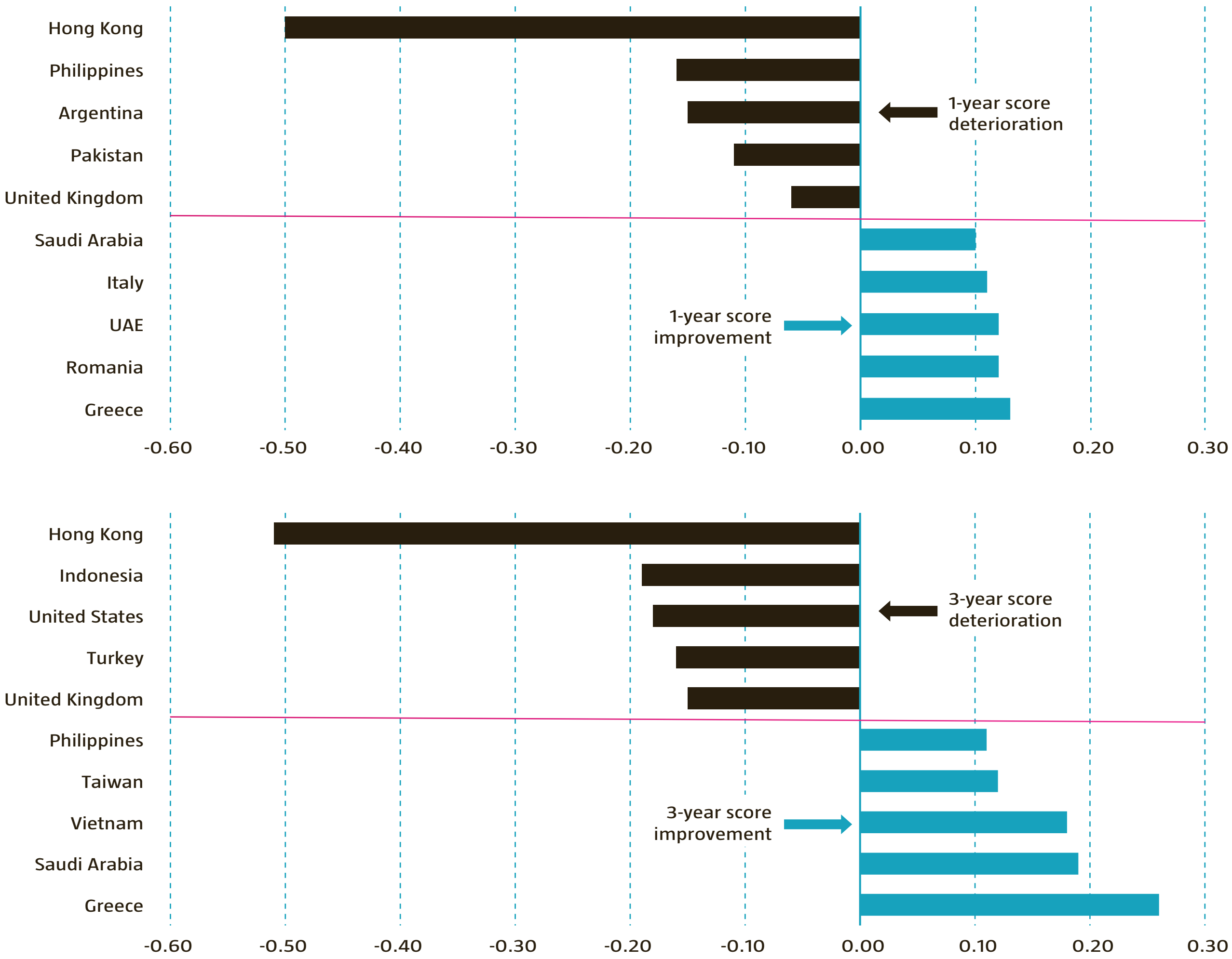
Amid the winners, Greece stands out with the best performance over both observation periods, primarily the result of the structural reforms undertaken in the aftermath of the 2009 financial crisis. A more specific summary of Greece's sustainability performance can also be found in the last CSR Update. Modest gains over the past year have also been recorded by Italy, which could benefit from some easing of tensions in the political risk and social unrest spheres, next to an improvement on the regulatory front.

It might be somewhat surprising that Saudi Arabia appears on the winners list as well. The Saudi Kingdom's improved standing stems from an increase in the retirement age for women, which positively impacted gender equality and aging indicators, as well as some other tenuous reforms for day-to-day life. This should not obscure the fact that the country does still display grave deficiencies in terms of inequality, personal freedom and human rights.

In addition, three East Asian nations have shown a solid ESG performance in the past three years: Vietnam, Taiwan and the Philippines. Vietnam has displayed some improvements in political risk and social unrest, as well as in the regulatory domain. In Taiwan, the biggest advances were recorded in governance, above all in corruption and globalization and innovation, as well as scores regarding human capital. These advances outweighed declines observed in the scores for the inequality and environmental performance criteria.

6. Robeco: Country Sustainability Ranking Update – Winter 2021: Sweden defends its lead, January 2021

Figure 5 | Largest gains and losses in ESG scores



Data source: Robeco; data assessed as of April 2021
Data note: The chart displays the largest score gains and losses for countries within the investable universe among the top-50 economies in terms of nominal GDP.

Among the winners over the one-year period, one finds the United Arab Emirates and Romania. The UAE has benefitted from a higher score for inequality thanks to an improved assessment in the Women, Business & Law Index, economic globalization and environmental performance, helping it to consolidate its position as the best-ranked Gulf Co-operation Council (GCC) country. Last but not least, Romania owes its improvement in the overall score primarily to a better performance in all three environmental criteria, in political risk and inequality, whereas the country has not suffered any noticeable declines in other ESG aspect.

Special country reports

Colombia's mass protests: an illustration of a deep social crisis

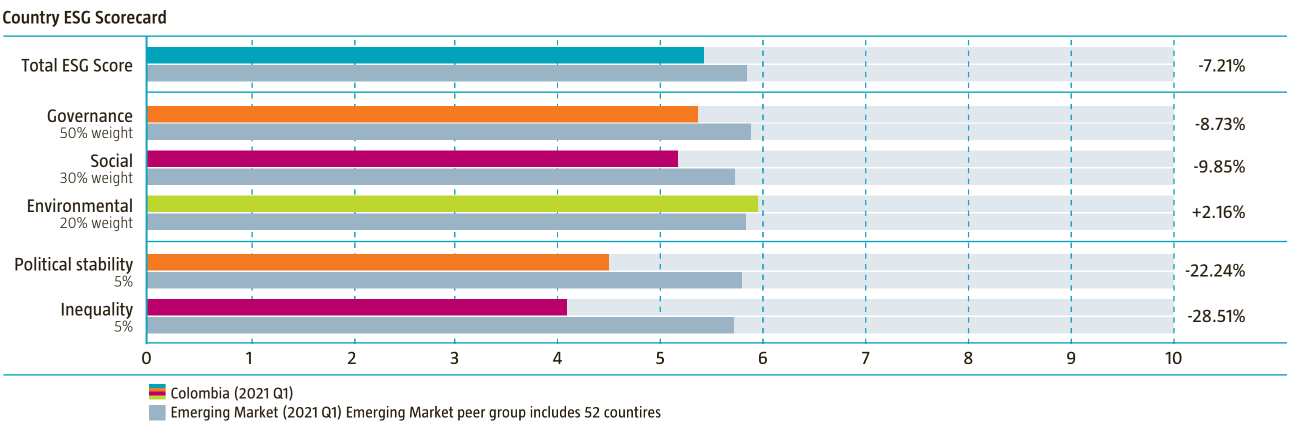
Colombia has been ravaged by recurrent violent anti-government protests since April this year, triggered by a controversial tax reform proposed by the government of Iván Duque. The bill – set up to redistribute money to the poor, partly by scrapping VAT exemptions – has widely been perceived as increasing the tax burden for much of the population, which was already struggling with the economic impact of Covid-19.

The original plan was withdrawn, and a new milder version of the tax reform was unveiled on July 20, but the protests resumed as it was seen as inadequate for boosting spending on education, health care and job creation. The demonstrators are also calling for police reform and more social justice in the face of the pandemic, which has caused a sharp economic contraction of roughly 7% and pushed an additional 3 million people into poverty. Sovereign creditworthiness has not remained unaffected by the events, as Colombia's sovereign credit rating was downgraded to junk status (BB+) by both, S&P on May 20 and Fitch on July 20, due to the failure of the original tax reform and a lower chance of structural fiscal adjustment.

The root cause for this wave of violent unrest is to be found in some long-standing social and political grievances, such as the pronounced inequality in income and wealth, the lack of economic and educational opportunities, and continued threats by criminals and local insurgents. Much of this is not new: politics in Colombia was strongly constrained by the armed conflict between the government and FARC rebels for many years. But even after the 2016 peace accord, the political leadership did not do enough to address these structural problems.

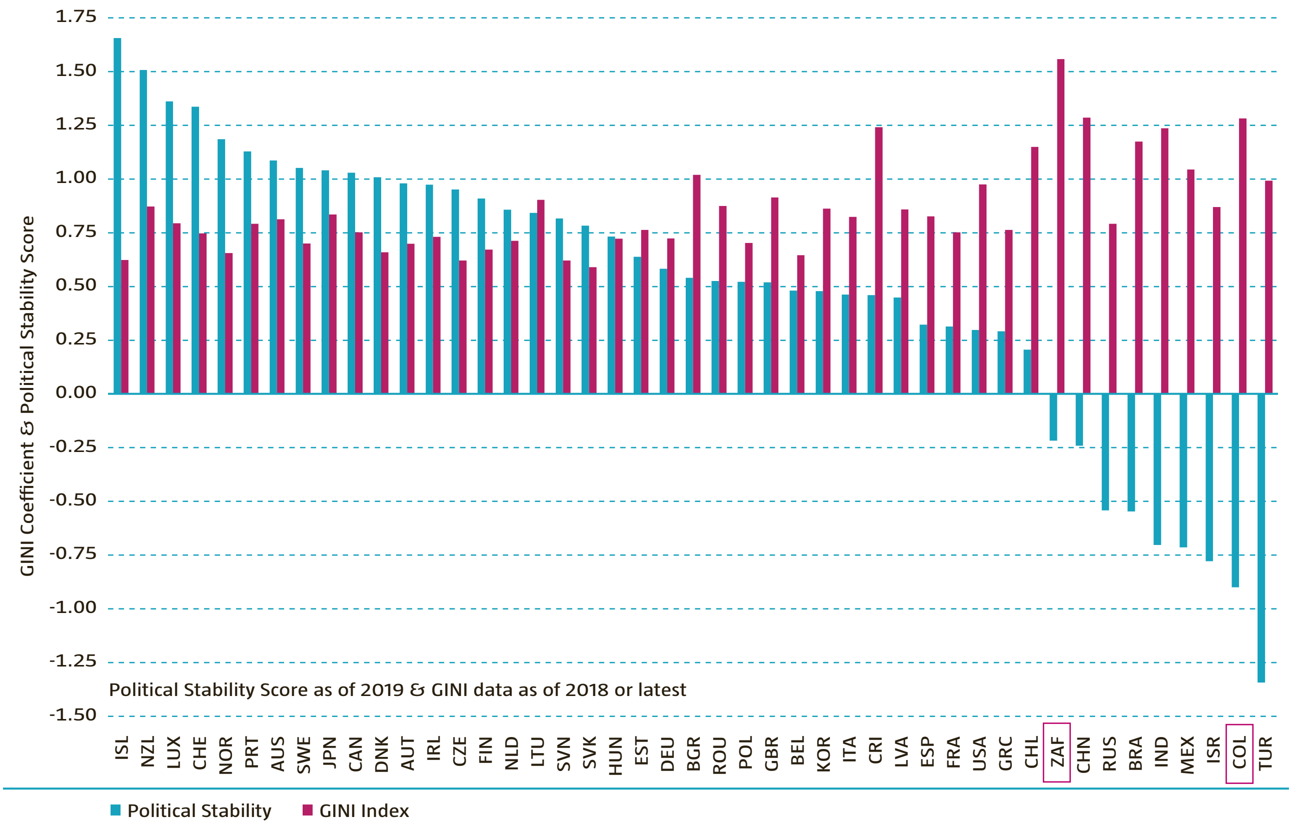
As a result, Colombia still reveals much weaker political stability and inequality scores relative to the emerging markets average (see Figure 6), and these two factors are weighing heavily on the country's overall ESG score. Moreover, political instability and inequality have worsened further during the pandemic, and are having a negative influence on each other, which is also evident from Figure 7. Colombia displays one of the highest income inequalities worldwide and has a poor political stability score in the Worldwide Governance Indicators, indicating an urgent need for policymakers to tackle these issues to improve stability and reduce social unrest.

Figure 6 | Colombia's pronounced deficiencies in inequality and political stability



Data source: Robeco

Figure 7 | Inequality tends to be correlated with higher political instability



Data source: OECD, World Bank

Data note: The original GINI index from 0 (max. equality) to 1 (max. inequality) has been aligned to the -2.5 (worst) to +2.5 (best) scale of the Political Stability score for display reasons. So, the higher the score the higher inequality.

South Africa: recent riots as a result of the country's continuing struggles

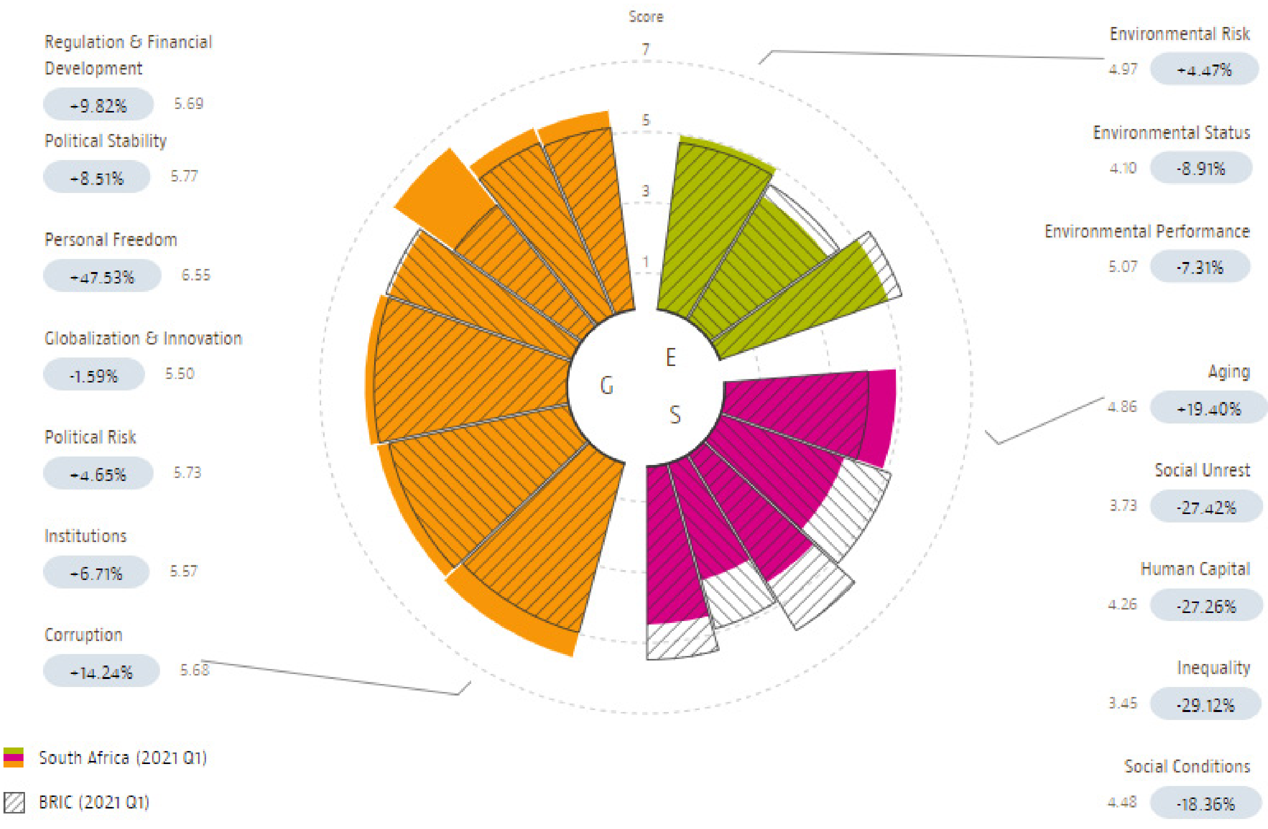
In July, South Africa witnessed the worst civil unrest since the end of apartheid in the 1990s. The trigger was the arrest of former president Jacob Zuma for failing to attend an inquiry into corruption. However, the root causes for the riots are to been seen mainly in the widespread despair over striking inequalities, joblessness, a lack of perspectives, rampant corruption, inadequate access to basic services and increasing hunger, all of which have been worsened by Covid-19. The country had already seen an increasing number of protests before the pandemic.

It is perhaps then quite remarkable that even under these adverse circumstances, South Africa retains a fairly reasonable record on political stability. With a political stability score of -0.22 (on a scale from -2.5 to +2.5) in the 2020 update of the Worldwide Governance Indicators, and a political risk score of 66.5 (on a scale from 0–100) in June 2021 by PRS Group, the country was ranked above all of its BRICS peer countries regarding these two metrics, which are also incorporated in the governance dimension within our country sustainability assessment.

It is true that with the end of apartheid and the first full free elections in 1994, South Africa was one of the world's shining example of democratization. Based on fairly solid institutions, government effectiveness and a reliable legal system, the new ANC governments firstly under Nelson Mandela and then initially under Thabo Mbeki were able to move the country forward and to preserve political stability under difficult economic and social conditions. Towards the final phase of the Mbeki administration, however, and then at an accelerating pace under the presidency of Jacob Zuma from 2009, South Arica has been caught in a negative spiral. It has suffered increasing political struggles, growing corruption, institutional erosion and a weakening economy, further aggravating the country's deep-seated troubles. This is a development that Zuma's successor Cyril Ramaphosa, who was elected as president in December 2017, has not been able to decisively turn around so far.

As a result, South Africa's overall ESG score deteriorated from 5.25 in Q1/2009 to 4.78 in April 2021. Despite this decline, the governance profile does still compare favourably with that of its BRICS peers, whereas the country displays major deficiencies in the social area, except for aging (see Figure 8). The developments in recent years indicate an increasing need for a change of trajectory to reverse the negative spiral of social and political instability and avoid more severe impacts on sovereign creditworthiness.

Figure 8 | Country ESG profile in comparison: South Africa vs other BRICS countries



Source: Robeco (data assessed as of April 2021)

Australia: standing out as a climate policy laggard

In recent years, Australia has suffered more frequently from extreme weather events such as bushfires, droughts, heatwaves, cyclones, floods and storms, indicating that the country is especially vulnerable to climate change. Even though there is increasing recognition of the adverse impact of climate change and an acceptance that these are likely to intensify, the government is still reluctant to take appropriate action, and so the country is falling further and further behind other developed economies regarding climate performance.

Australia is the biggest per-capita CO2 emitter within the OECD and is also far above the OECD average in terms of energy use (see Figures 9 & 10). It hasn't yet set a net-zero target and trails its peers with a greenhouse gas reduction target of between 26% and 28% by 2030. So, it is hardly surprising that Australia has received the lowest score awarded to any of the 193 UN members for the level of climate action (SDG 13) in the latest Sustainable Development Report. [7] This indicates that the federal government must do more to combat climate change, although state governments have started to reform their economies to curb carbon emissions, which should help to reduce the nation's emissions to some extent going forward.

The economy is heavily dependent on fossil fuels and is one of the world's biggest exporters of coal, which might explain the government's unwillingness to implement more tangible measures. However, the cost of inaction is likely to increase in the coming years.

A recently released report from the Climate Council finds that the cost of extreme weather has more than doubled since the 1970s and amounted to AUD 35 billion over the past decade. By 2038, these costs could increase to even AUD 100 billion every year.[7]

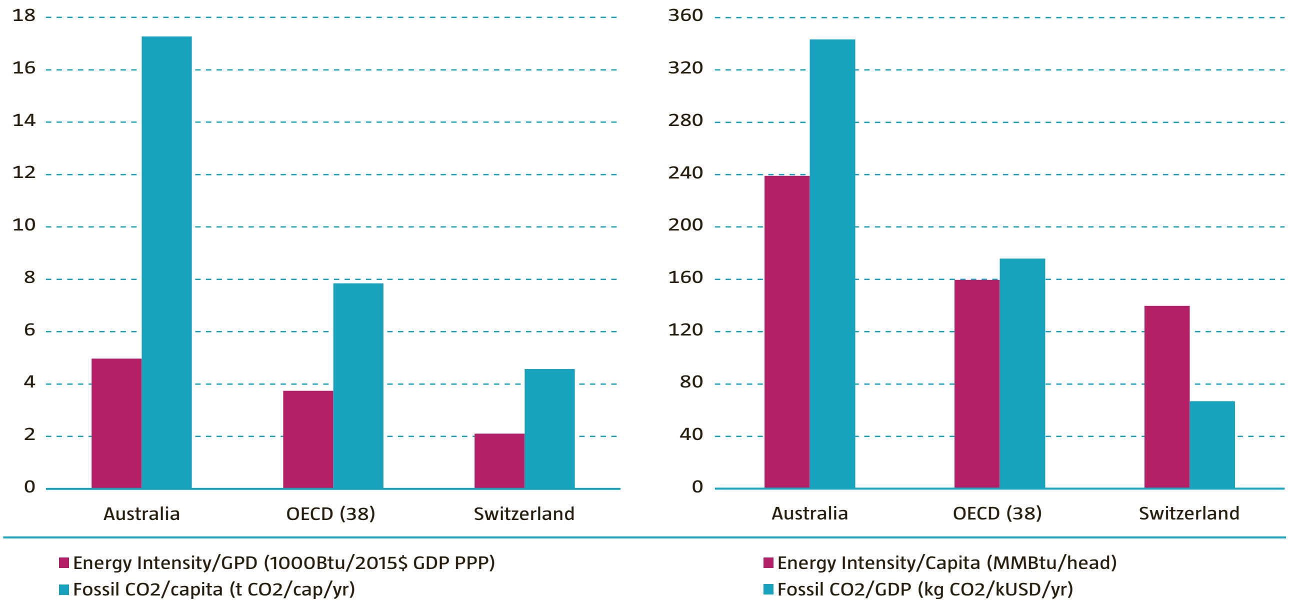
Additional pressure might also be exerted from a growing number of foreign investors that pledge to shift money away from countries that are climate laggards, given that half of the country's AUD 881 billion in government bonds were foreign owned at the end of March 2021, according to the Australian Office of Financial Management. As Australia's wider ESG profile including other environmental as well as social and governance features still compares favorably with those of its OECD peers (see Figure 11), the country can still rely on a sufficiently broad foreign investor base. But this could change over time with ever-growing consciousness of climate risks and mounting regulatory requirements.

Figure 9 | CO_2 emissions & energy use trends: Australia is lagging behind

Source: EDGAR, US Energy Information Administration

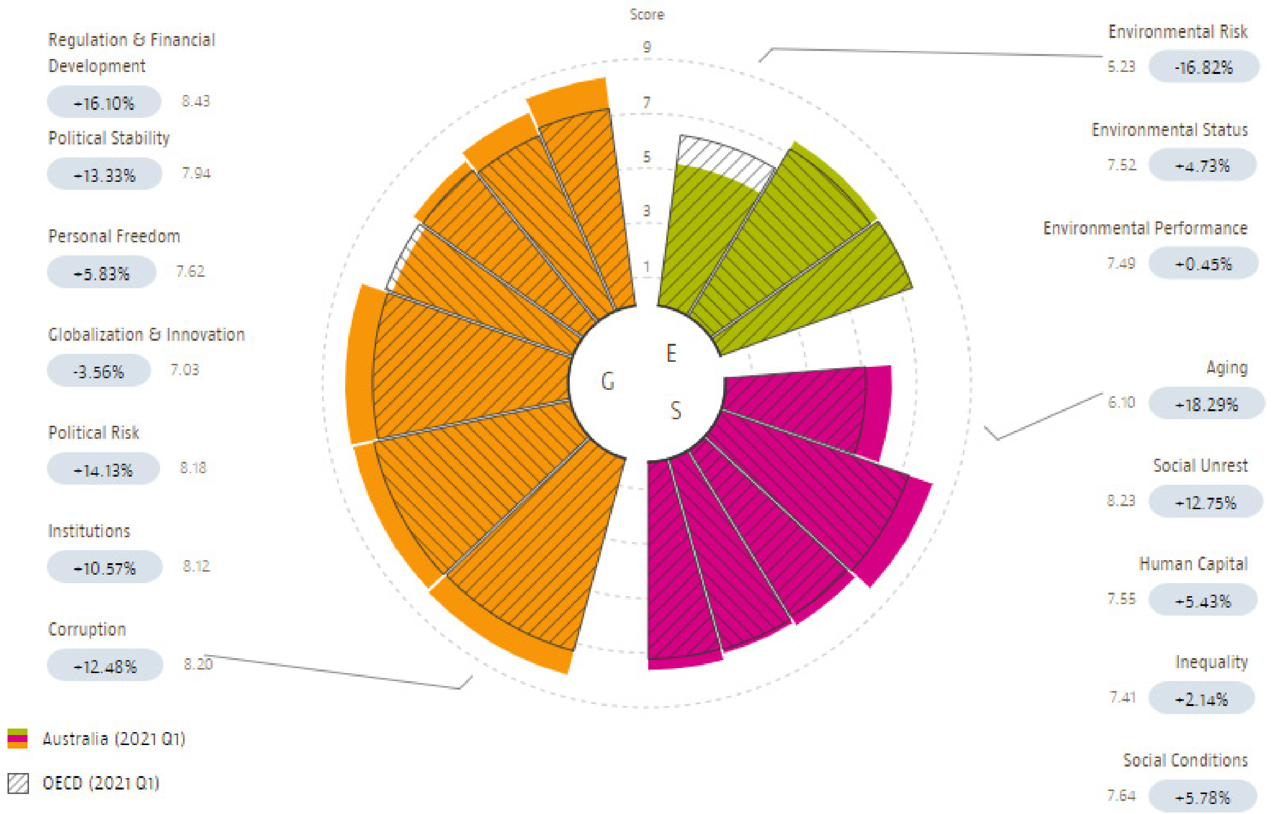
7. Climate Council of Australia: Hitting Home: The Compounding Costs Of Climate Inaction, 2021

Figure 10 | CO_2 emissions & energy use trends: Australia is lagging behind



Source: EDGAR, U.S. Energy Information Administration

Figure 11 | Australia's overall ESG profile is still superior to the OECD average



Source: Robeco (data assessed as of April 2021)

Swiss voters reject climate change law

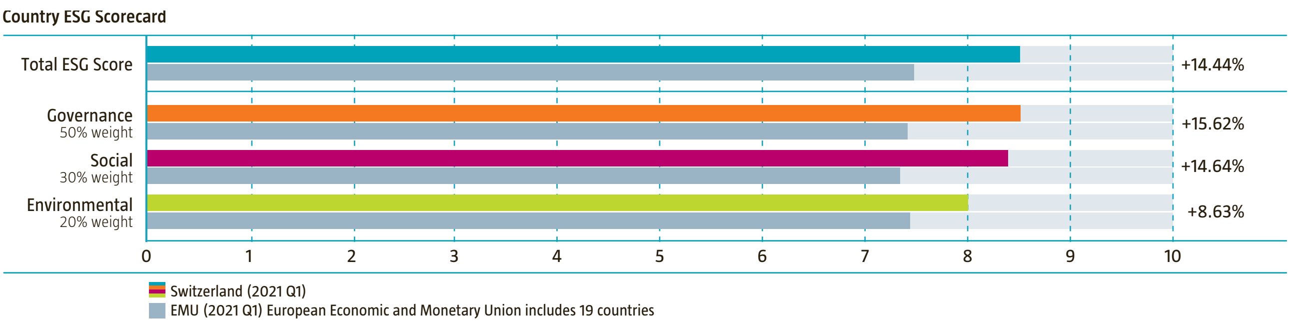
Switzerland's policy on fighting climate change received a severe blow after a narrow majority of 51.6% of voters rejected a proposed CO2 law in a referendum on June 13. The law to curb greenhouse gases was the result of a broad compromise and intense debates in parliament and had won the support of all political parties except for the right-wing People's Party. The CO2 law envisioned various measures on a 'polluter pays' principle, including increased taxes on car fuel and air tickets, as well as actions to curb industrial emissions and efforts to improve the energy efficiency of buildings. The defeat resulted from a combination of various factors, including disinformation and fears about rising living costs, and comes at a time when people are already burdened by Covid-19.

The government will now seek to extend uncontroversial climate protection measures and make fresh efforts to forge a new consensus on climate policies. However, the rejection will make it certainly much harder for Switzerland to reach its 2030 goal of cutting carbon emissions by 50% from their 1990 levels and to become net neutral on emissions by 2050. Still, past, and current climate protection efforts have allowed a reduction of per-capita CO2 emissions by 27% and energy use per head by 20% since the adoption of the Kyoto Protocol in 1997 (see Figure 9). With regards to both measures, as well as energy intensity/GDP and CO2 emissions/GDP, Switzerland ranks below the OECD average as visible in Figure 10).

The vote on the CO2 law was part of a trio of environmental proposals. It came with an initiative that aimed to ban artificial pesticides and another one that aimed to better protect biodiversity and Swiss drinking water. Both initiatives were voted down as well by 61%, as most Swiss farmers warned about the adverse impacts for agriculture, food prices and self-sufficiency in many foods. Even though the rejections do not simply signify that the Swiss are unconcerned about environmental issues, they nevertheless illustrate the difficulties that governments have in gaining popular support for the implementation of tangible measures to protect the climate and the environment when their long-term and less graspable benefits are weighed up against the more immediate concerns about rising costs and fears of limitations in everyday life.

With a score of 8.06, Switzerland is clearly lagging the ESG leaders in the ranking for the environmental dimension, which is led by Finland with a score of 9.64. However, in comparison with the average sustainability score of the Eurozone as a peer group, Switzerland still reveals a stronger score in all three ESG dimensions (see Figure 12). It is also apparent though that it is mainly the strong performance in the social and governance spheres that catapult Switzerland it into the top ranks overall.

Figure 12 | Switzerland's ESG profile relative to the Eurozone average



Source: EDGAR, US Energy Information Administration

Proprietary rankings vs independent benchmarks

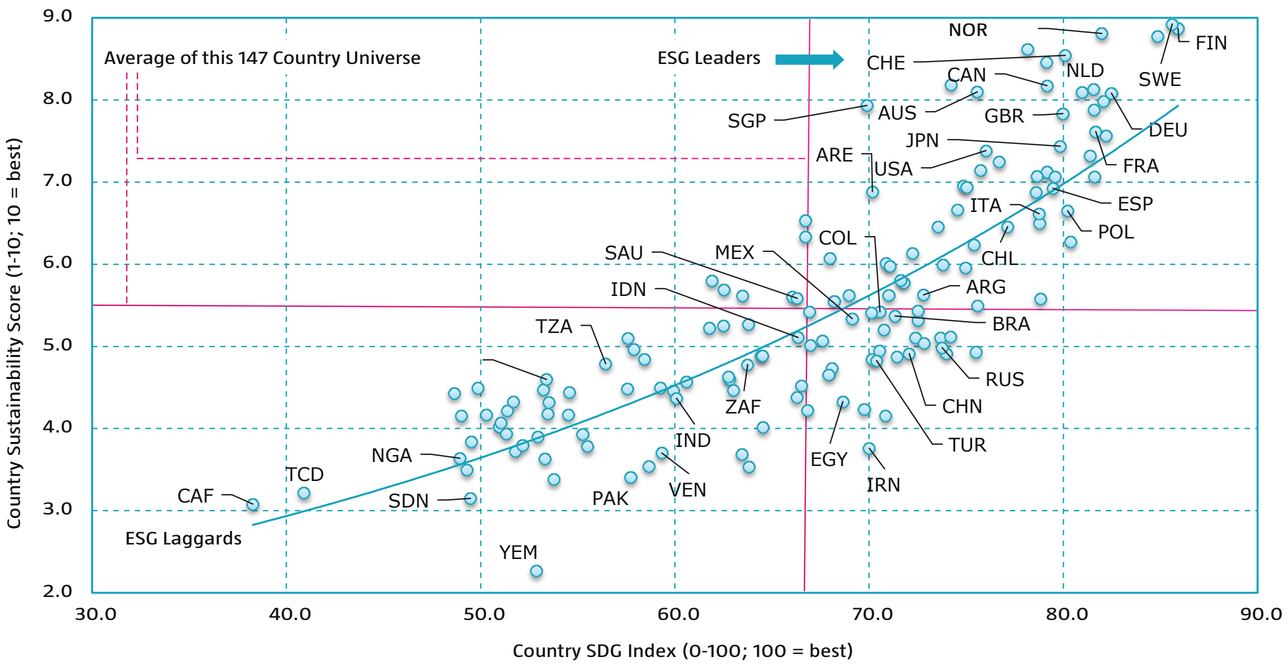
A valid measure for progress on SDG achievements

The Robeco April 2021 Country Sustainability Ranking is closely and positively correlated to the 2021 Sustainable Development Goals (SDG) index (correlation coefficient r=0.829; see Figure 13). The SDG index was created by the Bertelsmann Stiftung and the United Nations Sustainable Development Solutions Network in response to the 17 SDGs launched by the UN in 2015. The index serves as a tool to help countries identify national priorities and track SDG achievements. The 2021 SDG index ranking covers 166 countries and is led by Finland, which has pushed Sweden from the top position, followed by Denmark and Germany. Chad, South Sudan and Central African Republic still round out the bottom of the index.[8]

The relationship between the outcomes of the country SDG index and Robeco's CSR can be observed in Figure 13. The strong correlation suggests that there are no inherent conflicts or fundamental trade-offs between a country's commitment to the SDGs and the need to strengthen its sustainability profile in the pursuit of sustainability. It seems therefore obvious that countries doing well on achieving the SDGs are, in general, also performing well in terms of country sustainability, as related actions often point in the same direction.

Moreover, it is no surprise that lower-income countries tend to have lower SDG index scores as well as weaker country sustainability profiles, as they usually lack adequate institutions, distributional mechanisms, and the financial means to forcefully address severe environmental threats or improve their precarious social conditions.

Figure 13 | Country ESG scores: a good indicator for progress on SDGs



Data Source: Sachs, J., Kroll, C., Lafortune, G., Fuller, G., Woelm, F. (2021). The Decade of Action for the Sustainable Development Goals: Sustainable Development Report 2021. Cambridge: Cambridge University Press; Robeco

Data note: SDG index scores are of June 2021. The Robeco Country Sustainability Ranking is of April 2021.

8. Sachs, J., Kroll, C., Lafortune, G., Fuller, G., Woelm, F. (2021). The Decade of Action for the Sustainable Development Goals: Sustainable Development Report 2021. Cambridge: Cambridge University Press. DOI 10.1017/9781009106559

The correlation between the two frameworks is, however, far from perfect. For some countries, such as South Africa, Italy and Spain, the progress made towards the SDGs appears quite in line with their respective sustainability performance, as indicated by their positions on the trend line in Figure 11. Other countries, such as China and Russia, display a country SDG index score that is higher relative to their ESG score. In other cases, the SDG achievements of Singapore and Canada appear to be lagging sustainability performance. These deviations can largely be explained by differences in focus, the selection of indicators and their weightings. Governance indicators have a much higher weighting in our tool, whereas in the SDG index all 17 SDGs are equally weighted.

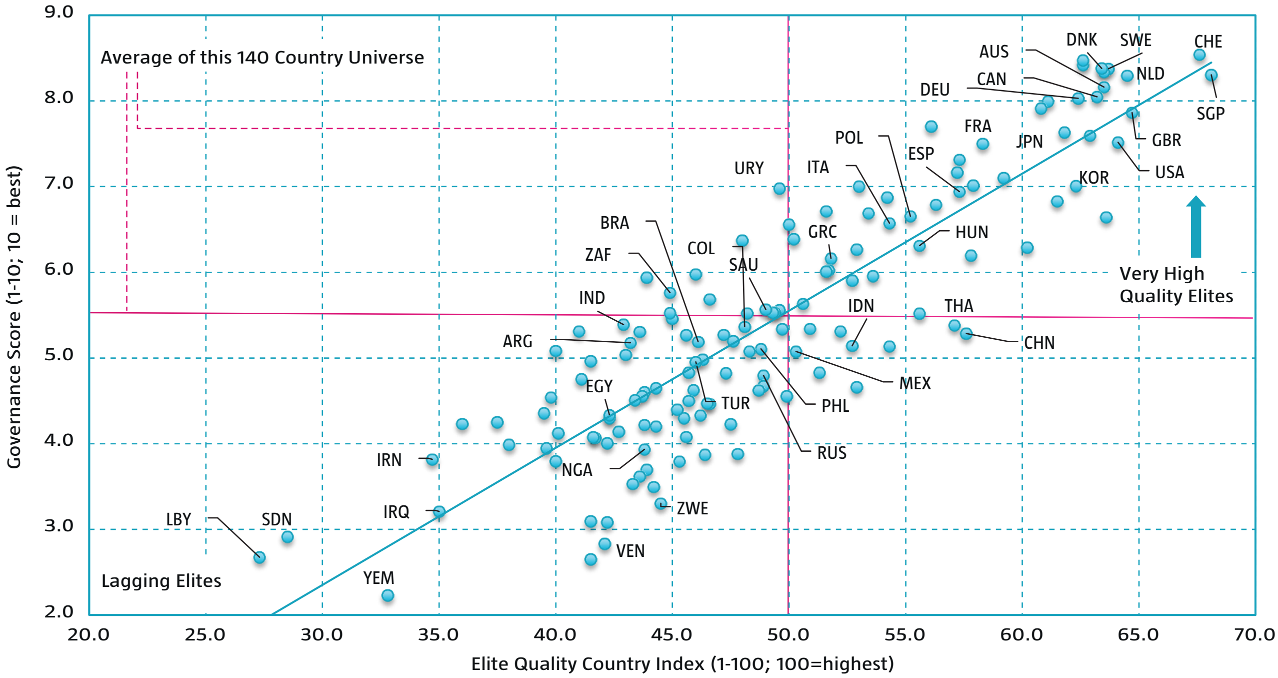
Elite quality of countries closely linked to governance structures

The governance dimension score of the Robeco April 2021 Country Sustainability Ranking is closely interlinked with the 2021 Elite Quality Index, as can be seen from the highly positive correlation (correlation coefficient r=0.882; see Figure 14). The Elite Quality Index (EQx2021) is a novel economic ranking of countries that has been developed by the University of St. Gallen and Singapore Management University along with international academic partners and the Foundation for Value Creation. It was published for the first time in 2020 and seeks to measure the way in which elites globally contribute to the economic, human, and political development of their countries. The 2021 index covers 151 countries and examines the quality of elites across the four areas of economic power, economic value, political power and political value. The ranking is headed by Singapore, ahead of Switzerland, the United Kingdom and the Netherlands. At the other extreme are – unsurprisingly – Yemen, Sudan and Libya.[9]

The close correlation between the EQx2021 and our Country Sustainability Ranking is hardly surprising as the quality of elites is also reflected in the strengths or weaknesses of a country's institutional framework and governance structures, which are core elements of our CSR. And, as it is well known from the economic literature and relevant research, good governance is a vital prerequisite for economic prosperity and human development. Good governance is making sure that the resources of a country are being managed in a way that allows all citizens of a country to benefit adequately from an improving quality of life. In the top positions of the EQx2021 ranking are therefore countries that are distinguishable by their strong and efficient institutions, a low level of corruption, a reliable legal system and political stability. The exact opposite is visible at the other end of the spectrum which contains several fragile or even failed states.

9. Casas i Klett, T. & Cozzi, G. (2021). Elite Quality Report 2021: Country Scores and Global Rankings, Zurich

Figure 14 | **Country elite quality scores closely linked with governance quality**



Data Source: Casas i Klett, T. & Cozzi, G. (2021). Elite Quality Report 2021: Country Scores and Global Rankings, Zurich; Robeco
Data note: Country Elite Quality Index scores are of May 2021. The Robeco Country Sustainability Ranking is of April 2021.

Country sustainability profile – strongly aligned with country resilience

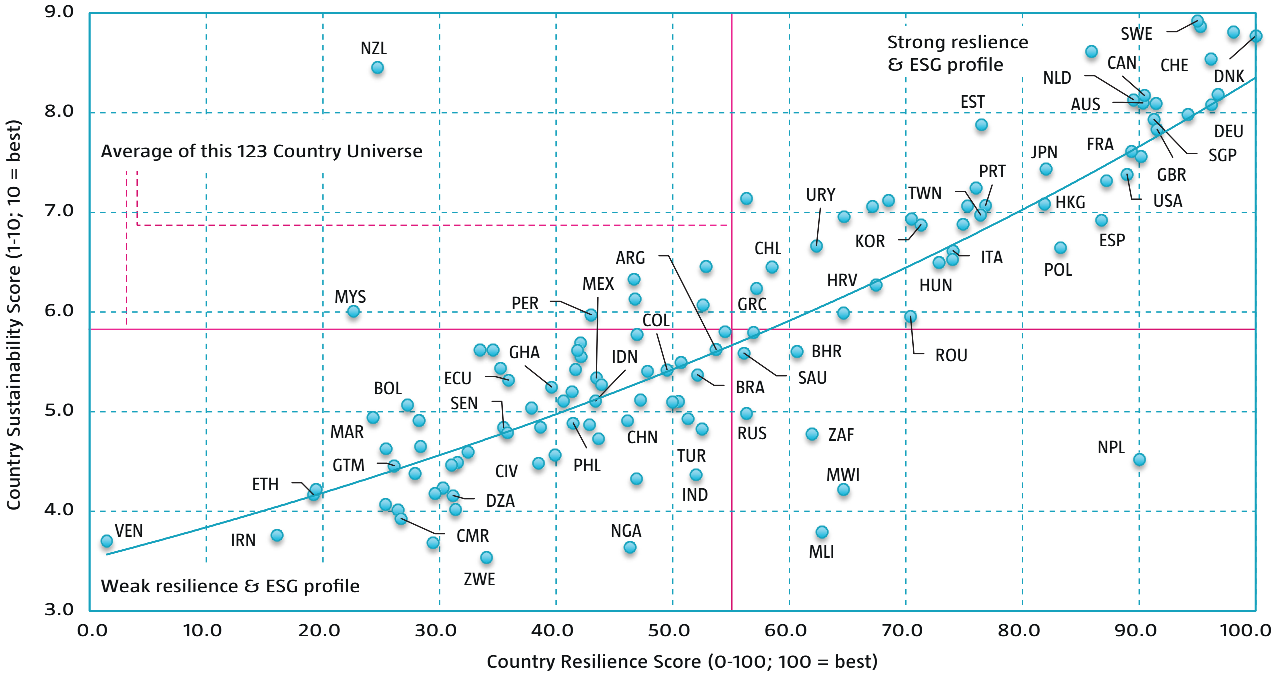
With the devastating and interwoven impacts of the ongoing Covid-19 pandemic having become so obvious in manifold ways, it is clearly necessary to build more resilient countries. Such efforts must reach far beyond a strengthening of public health systems and encompass the broad ESG spectrum of a country.

One interesting measure of robustness is FM Global's 2021 Country Resilience Index, an annual ranking of 130 countries and territories according to their enterprise resilience to disruptive events.[10] These can result from climate risk, health crises such as the current pandemic, or political turmoil. FM Global's assessment tool aggregates 12 drivers of resilience into three categories – economic, risk quality and supply chains. Key assessment elements include productivity, oil intensity, political risk, exposure to natural hazards, corruption and corporate governance. These are many of the same factors assessed in Robeco's country sustainability assessment model, which explains the similarity in outcomes and the high positive correlation between scores (0.83) as visible in Figure 15.

Countries with high scores based on the Robeco Country Sustainability Ranking also ranked high in terms of resilience as measured by the FM Global Resilience Index 2021. While there are some notable exceptions, this broad alignment is plausible, as countries with a stronger ESG profile are usually also less vulnerable to such disruptive events and/or are much better prepared to cope with their impacts.

10. FM Global: 2021 FM Global Resilience Index

Figure 15 | Country sustainability scores: a yardstick for a country's resilience



Data Source: FM Global, Robeco

Data note: FM Global Country Resilience Index Sovereign of 2021; RobecoSAM country sustainability scores of April 2021. FM Global is a mutual insurance company dedicated to property risk management and protection.

Appendix A: Country sustainability framework

Ongoing monitoring of the underlying data and data providers and maintenance of the methodology used to construct any model is an integral part of ensuring its accuracy, completeness and ongoing predictive power. In the following pages, we provide our source data as well as the framework in which it is weighted and measured.

The current methodological framework shown in Table 1 comprises 40 indicators, which are combined into 15 criteria covering the three main ESG dimensions (environmental, social & governance).

The framework captures a broad set of relevant ESG factors with the ultimate aim of providing an assessment of whether a country's development in the E, S and G areas helps preserve a sovereign's long-term solvency.

The country sustainability assessment framework currently covers a universe of 150 countries, 23 of which are considered industrialized countries or advanced economies, and 127 emerging market and developing countries.

Table 1 | Country elite quality scores closely linked with governance quality

Indicator level		Criteria level	Dimension level	Country Sustainability Score
For each country, numerous data series on a variety of ESG features are collected and summarized in 40 indicators. Each indicator gets a predefined weight and a relative score ranging from 1 to 10.		The indicators are aggregated to 15 criteria, whereby each criterion is also assigned a predefined weight.	Each dimension weight is the sum of the criteria weights within the respective dimension.	The country score is the weighted sum of all standardized indicator scores.
> Environmental Performance Index	> Energy Trilemma Index	Environmental Perf. (5.0%)	Environmental (20%)	RobecoSAM's Country ESG Score
> Climate Risk Index > ND-GAIN Index	> World Risk Index	Environmental Risk (7.5%)		
> Natural Environment	> Environmental Quality	Environmental Status (7.5%)		
> Labor Force Participation Rate 55-64 > Retirement Age	> Old-Age Dependency Ratio 2050	Aging (7.5%)	Social (30%)	
> Health	> Education	Human Capital (5.0%)		
> Gender Inequality Index > Women, Business & Law Index	> Economic Inequality > GINI Coefficient	Inequality (5.0%)		
> Basic Human Needs > Human Development Index	> Children's Rights in the Workplace	Social Conditions (5.0%)		
> Inclusiveness > World Happiness Ranking	> Economic Decline & Poverty > Safety & Security	Social Unrest (7.5%)		
> Control of Corruption	> Corruption Perception Index	Corruption (10.0%)	Governance (50%)	
> Economic Globalization	> Global Innovation Index	Globalization & Innovation (5.0%)		
> Government Effectiveness > State Legitimacy	> Rule of Law	Institutions (10.0%)		
> Freedom in the World > Voice & Accountability	> Human Rights	Personal Freedom (5.0%)		
> Political Risk Assessment	> Political Risk Rating	Political Risk (10.0%)		
> External Intervention	> Political Stability / No Violence	Political Stability (5.0%)		
> Financial Development Index > Regulatory Quality	> Index of Economic Freedom	Regulation & Fin. Development (5.0%)		

Source: Robeco

Appendix B: Data sources

Environmental performance	Yale University; Environmental Performance Index
	https://epi.envirocenter.yale.edu/
	World Energy Council/Oliver Wyman; Energy Trilemma Index
	https://trilemma.worldenergy.org/
Environmental risk	Bündnis Entwicklung Hilft; World Risk Index
	https://entwicklung-hilft.de/
	University of Notre Dame; ND-GAIN Index
	https://www.nd.edu/Germanwatch; Global Climate Risk Index
	https://germanwatch.org/en/cri
Environmental status	Social Progress Imperative; Environment (Component of SPI)
	https:// www.socialprogressindex.com/
	Legatum Institute; Environmental Quality (Pillar of Prosperity Index)
	https://www.prosperity.com/
Aging	ILOSTAT; Labor Force Participation Rate 55-64
	https://ilostat.ilo.org/
	UN – Population Division; Old-Age Dependency Ratio
	https://population.un.org/
	WB – Women, Business & the Law; Retirement Age
	https://wbl.worldbank.org/
Human capital	Legatum Institute; Education (Pillar of Prosperity Index)
	https://www.prosperity.com/
	Legatum Institute; Health (Pillar of Prosperity Index)
	https://www.prosperity.com/
Inequality	Fund for Peace; Economic Inequality (Indicator of FSI)
	http://fsi.fundforpeace.org/
	UNDP – Human Development Reports; Gender Inequality Index
	http://hdr.undp.org/
	World Bank; World Development Indicators; GINI Coefficient
	http://databank.worldbank.org/data/
	OECD; Income Distribution Database; GINI Coefficient
	http://www.oecd.org/
	WB – Women, Business & the Law; Women, Business & the Law Index
	https://wbl.worldbank.org/
Social conditions	Social Progress Imperative; Basic Human Needs (Component of SPI)
	https://www.socialprogressindex.com/
	Global Child Forum/UNICEF; Children's Rights in the Workplace Index
	https://www.globalchildforum.org/
	UNDP – Human Development Reports; Human Development Index
	http://hdr.undp.org/
Social unrest	Fund for Peace; Economic Decline & Poverty (Indicator of FSI)
	http://fsi.fundforpeace.org/
	Social Progress Imperative; Inclusiveness (Component of SPI)
	https://www.socialprogressindex.com/
	Legatum Institute; Safety & Security (Pillar of Prosperity Index)
	https://www.prosperity.com/
	Columbia University/SDSN; World Happiness Ranking
	https://worldhappiness.report/ed/2019/

Corruption	Transparency International; Corruption Perception Index
	https://www.transparency.org/
	World Bank; Control of Corruption (Worldwide Governance Indicator)
	https://info.worldbank.org/governance/wgi/#home
Globalization & innovation	KOF/ETHZ; Economic Globalization (Dimension of Globalization Index)
	https://kof.ethz.ch/
	WIPO; Global Innovation Index
	https://www.wipo.int/
Institutions	World Bank; Government Effectiveness (Worldwide Governance Indicator)
	https://info.worldbank.org/governance/wgi/#home
	World Bank; Rule of Law (Worldwide Governance Indicator)
	https://info.worldbank.org/governance/wgi/#home
	Fund for Peace; State Legitimacy (Indicator of Fragile States Index)
	http://fsi.fundforpeace.org/
Personal freedom	Freedom House; Freedom in the World Index
	https://freedomhouse.org/
	Fund for Peace; Human Rights (Indicator of FSI)
	http://fsi.fundforpeace.org/
	World Bank; Voice and Accountability (Worldwide Governance Indicator)
	https://info.worldbank.org/governance/wgi/#home
Political risk	Euromoney Country Risk; Political Risk Assessment
	http://www.euromoney.com/
	PRS Group; Political Risk Rating
	http://www.prsgroup.com/
Political stability	Fund for Peace; External Intervention (Indicator of Fragile States Index)
	http://fsi.fundforpeace.org/
	World Bank; Political Stability and Absence of Violence (Worldwide Governance Indicator)
	https://info.worldbank.org/governance/wgi/#home
Regulation & financial development	IMF; Financial Development Index
	https://data.imf.org/
	Heritage Foundation; Index of Economic Freedom
	https://www.heritage.org
	World Bank; Regulatory Quality (Worldwide Governance Indicator)
	https://info.worldbank.org/governance/wgi/#home

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