

May 2024

Sustainability ranking

OECD member states

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I. OECD Universe

1. A pioneer in country sustainability

Since the 2008 sovereign debt crisis and the loss of “risk-free asset” status, countries are increasingly being scrutinised from an environmental, social and governance perspective.

Credit rating agencies now include climate change risk in their assessments. **The holistic sustainability approach developed by DPAM in 2007** remains pioneering today, on the one hand because of the range of interconnected issues it analyses and on the other because of the **15 years of experience and observations** it has brought us, with the help of leading experts, on key subjects such as demographic issues or biodiversity.

2. Sustainability ranking

May 2024

The starting universe is composed of OECD member states and each new member is included in the starting universe. The sustainability ranking allows us to identify the countries which have **fully integrated global challenges** in their development of medium-term objectives.

This complements the information gathered from credit ratings, which are traditionally used to assess the short- and medium-term valuation of sovereign debt.

Integrating long-term perspectives allows us to highlight those countries that are expected to outperform others and therefore to be solvent. These perspectives have no direct impact on the current valuation of an investment but will influence medium and long-term performance.



3. A wellbeing model for countries

It is, in general, agreed that this decade is key for accelerating the transition and that this will determine impact in the coming decades.

Currently, the economy is not serving citizens and the planet and is showing its limits in terms of growth.

As Sandrine Dixson-Declève, Co-President of the Club of Rome, mentioned during her keynote speech at the Impact Finance Day in Belgium: we need to shift from a GDP-based economy to an economy based on values for citizens and the planet; to a wellbeing model.

Instead of looking at growth through the lens of GDP, she suggested we look at whether the economy finances education or good quality health for all. This is exactly what our model has done since 2007.

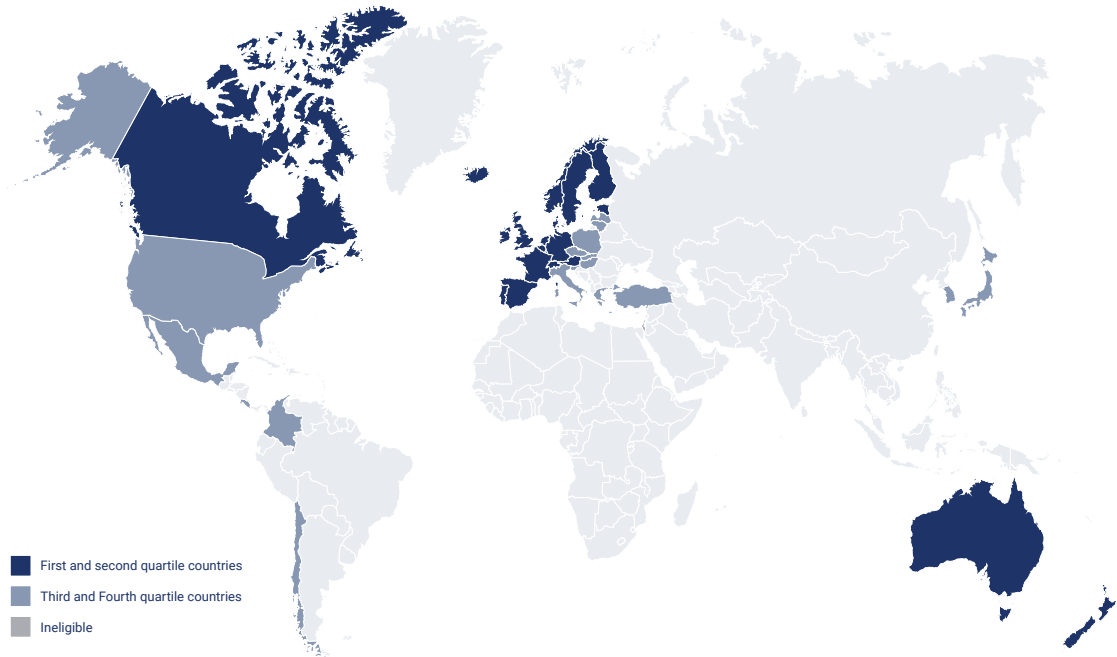
Today we face two scenarios: either business as usual or acceleration of the transition.

Scientific evidence is clear on the first option: the slower the action, the worse the impact of climate change, the higher the cost and the more challenging the transition will be with severe consequences including in terms of poverty and inequality.

In Western countries we can currently see how our economic system is increasing social tensions and inequality and decreasing wellbeing. Therefore, at DPAM we are convinced about how meaningful our model, articulated around challenges such as the environment, governance and democratic requirements, wellbeing/health, and education/innovation, is.

Quantitative metrics and the complex challenges of modelling, both present boundaries. For this reason, we constantly review our model, to ensure that it captures the most relevant challenges accurately.

Figure 1. OECD Member States



Source: DPAM, May 2024

Figure 2. Sustainable country ranking of OECD member states

Eligible country for investment	H1 24		H1 23	
	#	score	#	score
Norway	1	79	2	74
Denmark	2	75	1	75
Sweden	3	73	7	67
Iceland	4	72	12	66
Switzerland	5	72	6	68
Ireland	6	72	11	66
Luxembourg	7	72	5	68
Finland	8	72	8	67
United Kingdom	9	71	13	65
New Zealand	10	70	3	68
Netherlands	11	68	4	68
Austria	12	67	9	67
Germany	13	67	10	67
Canada	14	67	15	63
Australia	15	66	20	61
Estonia	16	65	22	59
France	17	63	16	63
Spain	18	62	17	61
Belgium	19	62	18	61
Portugal	20	62	19	61

Non-eligible country for investment	H1 24		H1 23	
	#	score	#	score
Lithuania	21	61	29	55
Japan	22	60	14	64
Slovenia	23	60	21	60
Latvia	24	59	25	58
Czech Republic	25	58	28	55
United States	26	57	27	56
Italy	27	57	26	57
South Korea	28	57	24	59
Chile	29	56	23	59
Slovakia	30	55	31	55
Costa Rica	31	52	35	50
Poland	32	51	33	54
Greece	33	51	30	55
Israel	34	51	34	51
Hungary	35	48	32	54
Colombia	36	44	36	44
Mexico	37	39	37	42
Turkey	38	36	38	40

Please keep in mind that for year-on-year comparisons, sustainability ranks could be influenced by various factors, such as changes in metrics and data availability.

Israel is ineligible due to its multiple violations of UN resolutions

Source: DPAM, May 2024



II. Country sustainability

1. What is sustainability?

Sustainable development meets the needs of the present generation without compromising the ability of future generations to meet their own needs.

Sustainability at country level differs from sustainability at company level. **A sustainable country is committed to fully ensuring the freedom of its citizens and invests in their personal development and welfare. It respects the environment and is reliable in terms of international responsibilities and commitments. It ensures its future and invests in future generations (education and innovation).**

2. How to measure the sustainability of a country?

Three main approaches are used to measure the sustainability of a country:

- 1. The legal approach**, with the emphasis on treaties and offences related to government actions. It should be noted however that agreement on treaties is not always fully binding and there is often no penalty where violations occur.
- 2. The extreme stakeholder approach**, the problem with this approach is the importance of the number of stakeholders and parameters to be considered, giving rise to the possible dilution and irrelevance of indicators.
- 3. The exclusion approach**, this consists of exclusions based on controversial activities, examples being whale hunting and deforestation.

These approaches raise the issue of the moral threshold level; this is complicated as it is a subjective question.



III. DPAM Country Sustainability Model

1. Key principles

Lack of information and an associated model encouraged DPAM to develop **an in-house research model in 2007**. Given the subjectivity of the issues, key principles were defined from the beginning:

01

Existence of an advisory board, including external specialists, providing input to the model.

02

Assessment of the commitment of the country to its sustainable development: variables on which the country can have influence through decisions.

03

Comparability and objectivity: criteria are numeric data, available from reliable sources and comparable for all countries.

2. FISAB (Fixed Income Sustainability Advisory Board)

The role of the FISAB is:

01 To select the sustainable criteria which fulfil the key principles and are the most relevant in the framework of the sustainability assessment of the OECD universe.

02 To determine the weights attributed to each indicator.

03 To critically and accurately review the model and the ranking to ensure continuous improvement.

04 To validate the ranking of the developed economies.

The FISAB consists of six voting members, half external experts. The complementary background of the members guarantees a high level of expertise and knowledge of the issues in constructing the most relevant model. The objective of the board is to raise awareness on ESG issues among the portfolio management teams.

External members

Aleksandar Rankovic
Researcher at IDDRI
(Institute for Sustainable Development
and International Relations)

François Gemenne
Professor at Sciences Po
(Paris) & ULB (Brussels)

Jan Schaerlaekens
Deputy at
Brussels Parliament



Ophélie Mortier
Chief Sustainable Investment Officer
DPAM

Ives Hup
Global Key Accounts Coordinator
DPAM

Celine Boulenger
Economist
Degroof Petercam

Internal members



3. Selective and objective criteria

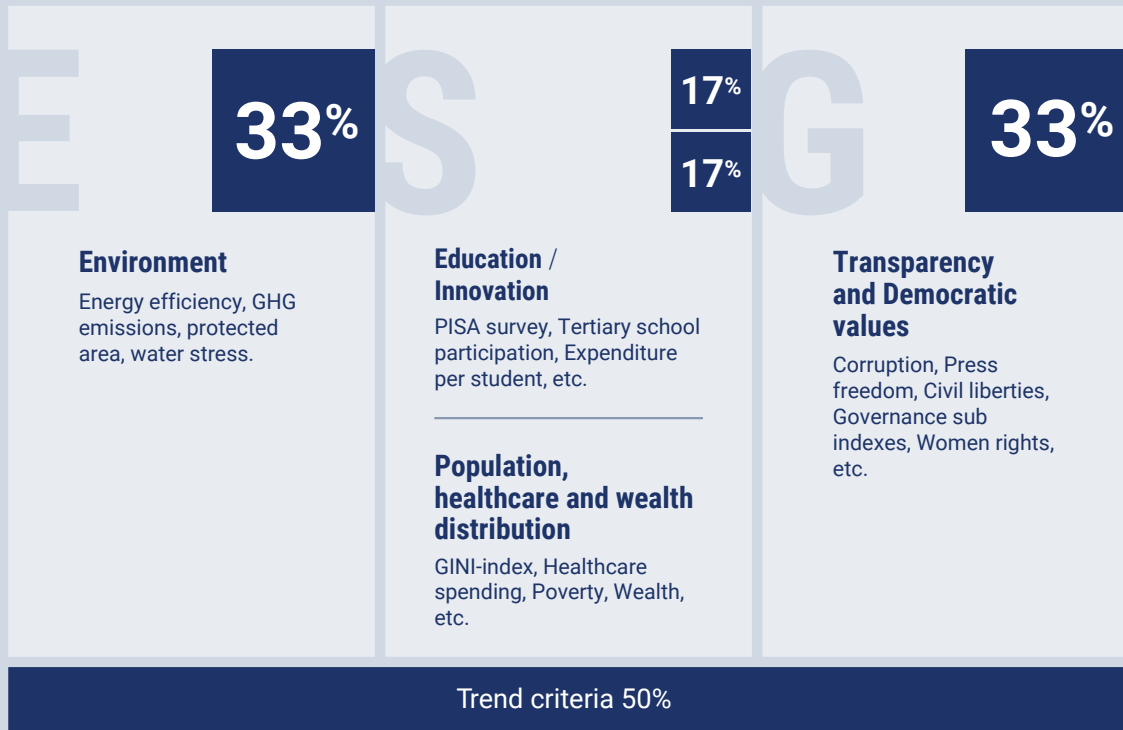
The framework of the sustainability model includes the capabilities which governments can use to influence policy (authorities, law). It avoids data linked to the geography or population density of the country. The model is quantitative and tracks the current performance of a country, with comparable data. Only a limited number of treaties are considered as they do not guarantee genuine commitment.

4. Norms-screening: violation of international treaties

The EU have issued guidelines on the occupied territories ([2013/C 205/05](#)). These make clear 'the non-recognition by the EU of Israel's sovereignty over the territories occupied by Israel since 1967'. The FISAB is aware that Israel claims that there is no violation of international law because the Fourth Geneva convention does not apply to the territories occupied in the 1967 six-day war. However, the United Nations Security Council, the United Nations General Assembly, the International Court of Justice, the International Committee of the Red Cross and the High Contracting Parties to the Convention have all affirmed that the convention applies. As the EU takes the view that there is a violation of international law Israel is excluded from the eligible universe.

5. Best-in-class combined with best approach

Our sustainability analysis focuses on four key ESG drivers which are all assigned a weight in the model:



Source: DPAM

Each key driver considers a variety of different criteria.

Transparency and democratic values takes into account: gender equality, institutions, international treaties, rights and liberties, security and tolerance and inclusion of migrants.

The environment considers: air quality and emissions, biodiversity, climate change and energy efficiency.

Education and innovation takes into account: access to advanced education and ICT, equal opportunities, innovation, investment and quality of education.

Population, health and wealth distribution considers: demography, health and wellness, inequality and life satisfaction.

Different indicators are chosen to reflect the criteria of each key driver. The model has over 50 indicators.

Each country receives a score ranging from 0 (worst) to 100 (best) based on its relative position compared to other countries (the comparison to the difference between the maximum and the minimum).

For binary criterion such as the signing of the Ottawa Convention a score of either 0 or 100 will apply.

The final score of a country is equal to the weighted average of the scores on each criterion, using the weights which are decided by the Fixed Income Sustainability Advisory Board. The final scoring is rounded up.

Progress and improvement are taken into consideration through a trend component with a 50% weight which enables us to reward countries that have just started their sustainability journey but are rapidly improving. Conversely, sustainable countries which rank well can not rely on past performance but should remain ambitious and improve over time.

The approach is dynamic as the criteria are reviewed twice annually, with the intention of selecting the most appropriate criteria for each domain. An indicator may be replaced, adapted or omitted. New indicators can enter the model and the allocation of the weightings may also vary.



IV. Holistic view and Engagement

The indicators used in the model take into account the **three key dimensions of sustainability (environment, social and governance)**. Each dimension is equally important, but the three are interconnected .

In recent years, we have witnessed several disruptions and even contradictions regarding governance, social concerns and environmental issues. Therefore sustainability analysis at country level has been essential in creating an integrated model.

Governance

In terms of governance, the strength of governing institutions is a key indicator to ensure the reliability and stability of the policies and programs a country has adopted. These enable countries to face internal and/or external challenges and obstacles.

Social

As a lack of credible and meaningful policies can impact the social stability of a country sound corporate governance is essential. At the same time, social instability weighs on the long-term growth potential and economic development of a country.

Environment

In terms of the environment the model considers GHG intensity, air quality and biodiversity, among other criteria. The example of citizens, through NGOs, suing States for a lack of responsibility in their environmental ambition and emissions targets – is testament to the strong relationship between governance and the environment.

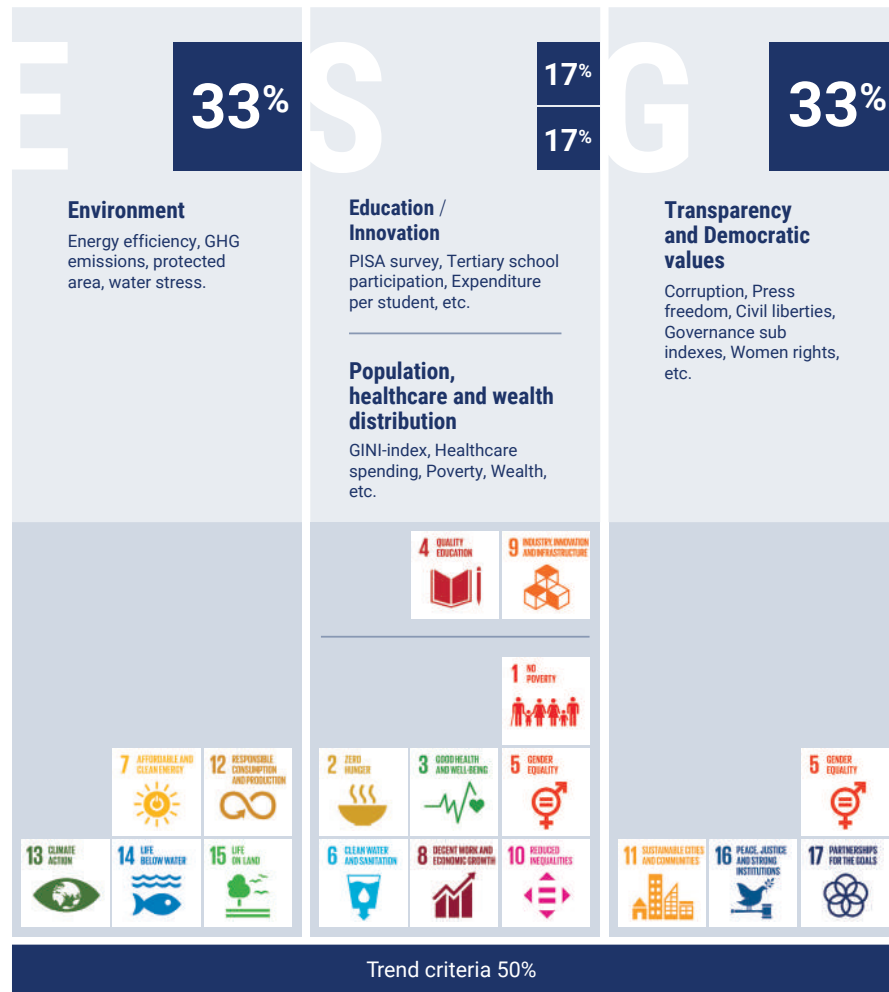
1. The model predates the Sustainable Development Goals

The 17 Sustainable Development Goals (SDGs), which followed on from the Millennium Development Goals, were launched by the United Nations between 2000 and 2015 and advocate sustainable development in the economic, social and environmental domains. These goals reaffirm human rights and the intention to eradicate poverty, hunger and inequality by the end of 2030.

The 17 SDGs have been adopted by nearly 200 countries. They present a unique opportunity

to channel more investment towards major environmental and social challenges.

DPAM is proud of its pioneering sustainability model that predates the SDGs. The SDGs are much more than a different framework for communicating our ESG and sustainable investment philosophy. We review the country model taking into account the SDGs to increase its relevance and to better integrate these objectives in our investment decisions.



Source: DPAM



V. International and Engagement

1. Sources are internationally recognised

The model aims for the highest possible level of **objectivity**. Accordingly, statistical data to support the analysis of the country's sustainability are mainly collected from government databases and international governmental agencies such as the International Energy Agency, the World Bank, the International Monetary Fund, the United Nations Development Programme and the US Central Intelligence Agency. Data are complemented by information drawn from leading non-governmental organisations such as Freedom House, Transparency International and the World Economic Forum.

2. Engaging with countries as sovereign bond holders

Dialogue with the stakeholders is at the heart of our fundamental research and investment process. Engaging in dialogue is a means to fine-tune fundamental research-driven investment decisions and to spread best practice and innovative solutions to ESG challenges.



DPAM uses engagement as a due diligence process, integrated in our commitment to be active, sustainable and research driven.

Engaging with sovereigns allows us to actively contribute to the promotion of responsible governance and sustainable development and DPAM is convinced of the important role **sovereign bonds** play as a means of financing the transition to a low carbon economy.

An engagement is meaningful as soon as it has an impact, for example, when it leads to change and progress. However, we use a different approach when engaging with countries than when engaging with companies. **Engagement with sovereign bond issuers is based on dialogue** for mutual learning and it therefore aims to provide an exchange of information and best practice.

The dialogue is structured according to a multi-step process that progresses from awareness raising to focusing on the Paris Agreement's strategy and commitments. Our primary objective is to raise awareness among governments about the importance of ESG integration, including in sovereign bond investments.



ESG factors provide a robust view on a country's risk profile, shedding light on how countries are managing environmental challenges, social inequalities and governance structures.

1. In the first phase of an engagement our role is to **emphasise that investors consider ESG criteria** in their investment decisions to indirectly encourage the adoption of policies that foster sustainable development.
2. In the second phase, **we introduce DPAM's proprietary country model**. We explain how it works, what DPAM learns from it and in particular we discuss the scorecards DPAM produces for each of the countries eligible for investment. In this way, we highlight countries strengths and areas for attention, while gathering their feedback for a mutual exchange of information.
3. The third phase of engagement focuses on **the importance of green finance** and the country's potential in financing the transition. We highlight DPAM's expectations regarding the use of the proceeds from bonds and share our expectations on the qualities of or improvements possible to green finance frameworks.

Finally, we have an exchange about **a country's alignment with the Paris Agreement** and its ambition to reach Net Zero by 2050. Almost all countries have committed to achieve carbon neutrality by 2050, however it is important to assess the credibility of their claims and their pathway to reach this target.

The discussion about credible paths to alignment with the goals of the Paris Agreement is key for DPAM as a signatory of the Net Zero Asset Managers Initiative. Although sovereign bonds are typically out of the scope of such initiatives, we remain convinced of the importance of this asset class and therefore seek its alignment with our commitments.

For more information about how we engage with countries and examples, please see our [Engagement Policy](#) and [Engagement Activity Report](#).



VI. Thematic content: Education

PISA is the OECD study for international student assessment. Since their launch in 2000 **the PISA tests have been a major indicator for our education pillar.** The PISA tests aim to evaluate education systems worldwide by testing the skills and knowledge of 15 year old students in participating countries/economies. Every three years a randomly selected group of 15 year olds take tests in key subjects with a focus given to one subject in each year of assessment. In this eighth cycle, the tests focused on mathematical skills, although sciences and reading were also covered.



The 2022 edition found an almost unprecedented general decline in mathematics and reading, and to a lesser extent in the sciences. This decline confirms the trend over the last 10 years, with a decrease in science skills and reading, while mathematical skills remain largely stable.

While the 2022 edition is the first comprehensive study of the quality of education in the countries surveyed - not just OECD member countries - following the Covid crisis and the resulting containment, the decline in results cannot be explained solely by this.

In the 2018 edition, some countries, notably Belgium, France, Canada and the Netherlands, showed a deterioration in their performance in these topics. What's more, it is difficult to prove the actual correlation between the closing of schools and results, given the progress of certain countries. Access to technology to support learning, along with the assistance and availability of teachers and the support offered by parents, are additional, important factors dictating performance.



The PISA tests do not focus solely on performance, but also on the question of **equity** and whether the influence of the socio-economic context of students or of schools has an impact. Compared to the previous edition, in 2018, little progress has been made on this issue. While some countries are improving - mainly outside the OECD, perhaps with different starting points, 12 countries are showing deteriorating results on this issue.

The tests also analyse **the quality of teaching** and they have already shown that financial investment does not always correlate with an increase in the quality of teaching.

In the latest edition, there are two important findings: staff shortages are becoming more acute, and digital resources are insufficient or of declining quality.

The 2022 version is accompanied by a **cognitive, social and emotional series** entitled Happy Life in 2024. Three overall findings influence the performance context unfavorably:

- 8% of pupils are suffering food insecurity;
- 30% say they are distracted by digital devices;
- 20% are harassed several times a month.

These trends and statistics are not encouraging. Obviously, there are differences between countries and even between regions and states within countries.

The education of our young people and the need for an equal, quality educational system that meets the needs of a constantly changing world are key challenges for countries in ensuring their sustainable development.



It is essential to invest the necessary resources in the educational system to meet these challenges.

Governments clearly have a role to play and this major study shares several recommendations to ensure that we can rise to the challenge.



Reference Sources

Amnesty International

Center for Global Development

Climate Change Performance Index

Energy Institute

Freedom House

Global Forest Watch

Global Safety Net

International Macro team

International Criminal Court

Notre Dame Global Adaptation Initiative

OECD Data

OECD Statistics

Plasteax

Reporters without Borders

S&P Global

Transparency International

United Nations Development Programme – Human Development Reports

United Nations Food and Agriculture Organization Aquastat

United Nations Food and Agriculture Organization Stat

United Nations High Commissioner for Refugees

United Nations Office for Disarmament Affairs

United Nations Peacekeeping

United Nations SDG Indicators Platform

United Nations Treaty Collection

World Bank

World Economic Forum

World Prison Brief

VII. Commitment to Sustainability

DPAM is committed to being a sustainable actor, investor and partner. We seek to advance to thrive, ensuring growth that benefits clients, stakeholders and society as a whole. We believe that being a responsible investor goes beyond offering sustainable and responsible products; it is a global commitment at company level translated into a coherent approach.

DPAM is committed to act as a sustainable and responsible market participant. Our engagement is threefold:



Defend the basic and fundamental rights

Human Rights, Labour Rights, Fight against Corruption and Protection of the Environment



Express an opinion on controversial activities

- No financing of the usual suspects
- Clear controversial activity policy and engagement on controversial issues
- Avoid controversies that may affect reputation, long term growth and investments



Be a responsible stakeholder and promote transparency

- Find sustainable solutions to ESG challenges
- Engage with issuers, promote best practice and improvements

We are convinced of the risk/return optimisation that comes with the **integration of Environmental, Social Governance (ESG) criteria**. We see sustainability challenges as risks and opportunities and we use ESG criteria to assess them in our investment decisions. We are committed to the European Commission's 2030-2050 program for sustainable and inclusive growth.

1. Conviction & commitment

Recent decades have brought many challenges and we firmly believe that **sound corporate governance, a clear understanding of current and future environmental challenges and respect for social norms** are drivers for long-term sustainable performance. This vision is integrated in our mission and value statement.

Our goal is to offer first-rate expertise and to uphold our shared values and beliefs. Environmental, Social and Governance (ESG) considerations are integrated into our value proposition, **our fundamental research and our investment processes**.

2 Member & signatory

To affirm our commitment to long-term sustainable financial management, we are a signatory to various organisations. These all advocate responsible investment and offer insights into ESG challenges and opportunities.



We are part of two key initiatives on shareholder responsibility and the fight against climate change: the PRI (since 2011) and the Net Zero Asset Managers initiative (since 2022).

We have been supporters of **the TCFD recommendations** since 2018. In addition, we joined Climate Action 100+ in 2019. That same year, we also became a signatory of **FAIRR**, a collaborative engagement initiative which seeks to decrease the environmental impact of the food value chain by encouraging the use of sustainable proteins within food products.

As the environment and biodiversity are such urgent global concerns, we have been supporters of **the Finance for Biodiversity Pledge** since December 2020. This Pledge calls on global leaders to protect and restore biodiversity through their financial activities and investments decisions.

DPAM is also a member of **the Emerging Markets Investor Alliance**. This is a not-for-profit organisation that enables institutional emerging market investors to support good governance, promote sustainable development, and improve investment performance in the governments and companies in which they invest. The Alliance seeks to raise awareness and advocate for these issues through collaboration among investors, companies or governments, and public policy experts.



In 2023, we engaged in two collaborative initiatives: **Advance** (a stewardship initiative for human rights and social issues launched by the UN-PRI); and **IIGCC** (The Institutional Investors Group on Climate change). The Advance initiative primarily seeks change through investors' use of influence with portfolio companies. DPAM's involvement is primarily on access to research, acting as the lead investor for EDP and Acciona, and in endorsing the initiative with public

policy makers. IIGCC is the European membership body for investor collaboration on climate change. Their main objective is shaping sustainable finance and climate policy, supporting market development, and guiding investors in managing climate risks and opportunities in aligning portfolios with climate goals, among others. DPAM's involvement is linked to its commitment to the **Net Zero Asset Management initiative**.

3. Facts & Figures



A growing focus on sustainable investing for over 20 years



Pioneer in sustainable sovereign debt over EUR 5 bn invested (as of end of December 2023)



Signatory of UN-PRI since 2011
Top rating for the seventh consecutive year



EUR 20.8 Bn is compliant with SFDR 8+ & 9 funds across various asset classes (as of end of December 2023)



Exercise our voting rights across 299 companies globally



DPAM Corporate AuM with SBT (Science Based Targets) or 1.5°C Alignment stands at 57% (as of end of December 2023)



Active via collaborative engagements (CA100+, CDP, ADVANCE, etc.)




Active dialogue with 645 companies

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