Swedbank

# Macro Focus

## Swedbank's Sustainability Indicators: towards the 2030 Agenda

- Sustainability Indicators assess progress towards UN Sustainable development goals
- Focus on sustainable development identifies business opportunities and highlights risks
- Sweden should speed up reforms to remain among the leaders, while the Baltics have a lot of catching up to do

Swedbank has developed a new methodology, Sustainability Indicators, to monitor the progress towards the UN 2030 Agenda for Sustainable Development. The aim is to support business looking at ESG (environmental, social, governance) criteria and help to identify weaknesses and strengths in Sweden and the Baltics. There is much unused business potential in Sweden and the Baltics in advancing sustainability, e.g., in making the transition to cleaner and more energy-efficient economies. The Sustainability Indicators show that Sweden has to speed up reforms to remain among the leaders in Europe, while the Baltics have a lot of catching up to do.

### The new norm – sustainable development and investment

Investors/businesses increasingly look at ESG (environmental, social, governance) criteria and integrate them into their investment/business decisions, products, and processes. There is also a push from new regulations, such as mandatory ESG disclosure for large companies in the EU and global agreements, like the Paris climate agreement. New business/investment opportunities in many sectors are being created as a result – renewable energy capacity is expanding, electric cars are soon to be the norm, big data are used to generate sustainability ratings of companies, and new finance instruments are being developed. Demand for environmentally friendly products and services is growing, as are socially responsible investments (SRI), especially among millennials.[1] Sustainable business and investment are going mainstream worldwide, and the returns can match those in traditional spheres.

A new push and a framework to tackle climate change and social challenges globally are coming from the UN 2030 Agenda for Sustainable Development, which was adopted by the world leaders and came into force in January 2016. The framework includes 17 Sustainable Development goals (SDGs) comprising a total of 169 targets and 232 indicators to be monitored at the country level (see the goals in Appendix 1).

**Progress towards UN SDGs, % of benchmark***

| | Estonia | Latvia | Lithuania | Sweden |
|---|---|---|---|---|
| Sustainable medium-term growth (SDGs #4, 8, 9) | 71 | 61 | 64 | 90 |
| Social inclusion (SDGs # 1, 3, 5, 10) | ↓ 56 | 55 | 55 | ↓ 89 |
| Environmental protection (SDGs # 6, 7, 11, 12, 13) | 58 | 72 | 70 | 82 |
| Governance and institutions (SDGs # 16, 17) | 70 | 51 | 62 | ↓ 97 |

Downward/stable trend during last 5 years (4 years for governance) – ↓

* Benchmark is 90 or 10th percentile of EU28 in 2015. In total 40 indicators covering 14 from 17 SDGs, aggregated to four pillars. Traffic lights - Sweden: >90% for green, 70-90% for yellow; Baltics: >80% for green, 60-80% for yellow.

Source: Swedbank Macro Research.

[1] See *The Economist* (2017) "Sustainable investment joins the mainstream" here.

The goals focus primarily on three core elements: economic growth, social inclusion, and environmental protection. The SDGs are not legally binding; however, countries are expected to take ownership and establish a national framework for achieving the 17 goals.

## UN SDGs as a point of departure to assess sustainable development[2]

To assess long-run sustainability in Sweden and the Baltics and to see where the biggest potential for improvement is, we take the 17 UN goals as a point of departure. We build our methodology on earlier research, e.g., by the OECD,[3] and evaluate how far Sweden and the Baltics are from achieving UN targets. We interpret the goals based on our countries' national strategies and priorities, selecting indicators that, we believe, are the most relevant. The range of indicators is limited, though, for some of the goals by insufficient data. Also, national monitoring frameworks (including particular indicators) are still being developed. Therefore, we will continue developing the framework and monitoring the results over time. We selected 40 indicators, covering 14 out of 17 SDGs, and grouped these into four sustainability pillars:

- ***Growth***, i.e., structural preconditions for sustainable medium-term growth (11 indicators), such as education, innovation, and labour force participation (contributing to SDG #s 4, 8, and 9);
- ***Social inclusion*** (10 indicators), such as inequality and poverty, and health (SDG #s 1, 3, 5, and 10);
- ***Environmental protection*** (11 indicators), such as energy intensity, emissions, renewable energy, waste generation, and sustainable cities (SDG #s 6, 7, 11, 12, and 13); and
- ***Governance*** (8 indicators), such as government effectiveness, rule of law, corruption perception, regulatory quality, and official development assistance (SDG #s 16 and 17).

To assess progress in these areas, we use EU28 90th or 10th percentiles (depending on whether a maximum or minimum is relevant) as a benchmark and calculate how far the countries have come towards the benchmark. We take 2015 data for the benchmark (the year when the UN 2030 Agenda was set) or latest available, if there are no data for 2015 yet. We do it for all indicators and calculate the average for each of the four pillars. In addition, for greenhouse gas (GHG) emissions, we also take into account national targets (as a part of EU determination) for emission reduction by 2030. We assign a traffic-light colour (green, yellow, or red), depending on how likely countries are to reach these benchmarks by 2030. This shows which areas require the biggest action and simultaneously provide the largest opportunities.

We should keep in mind that, due to income level differences and, thus, different starting points, the benchmarks are more ambitious for the Baltics than for Sweden, at least in some areas. Sweden scores better than the Baltics on most indicators; it reaches almost 100% of the benchmark for the *governance* pillar, nearly 90% for the *social inclusion* and *growth* pillars, and about 80% for the *environmental protection* pillar. Overall, in 16 indicators out of 40, Sweden is already at 100% of the benchmark.[4] Results for all the indicators can be seen in Appendices 2 and 3.

However, when you look at the dynamics, the Baltics have made notably faster progress over the last five years than Sweden. This is because, when the low-hanging fruits have already been picked, it gets harder to improve your score. Therefore, when assigning traffic-light colours, we apply somewhat more ambitious cutoff points for Sweden. For the Baltics, we assign "green" if the countries reached 80% or more of the benchmark (implying that an improvement of at least 1.3 percentage points per year is needed to achieve 100% by 2030) and "yellow" if 60-80% (an annual improvement of 1.3-2.7 pp necessary). For Sweden, we assign "green" if it is 90% or more of the benchmark (at least a 0.7 pp improvement necessary per year) and "yellow" if 70-90% (an annual improvement of 0.7-2.0 pp necessary).

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[2] See our earlier analysis on sustainable development in Swedbank *Baltic Sea Region Report 2017* here.
[3] See OECD (2017) "*Measuring Distance to the SDG targets*" here for more details.
[4] For some indicators, Sweden even exceeds (more than 100% of) the benchmark, but we keep a cap of 100% in these cases (i.e., reaching the target is most important).

**Average change for the pillars during last five years (four years for governance), %**

| | Estonia | Latvia | Lithuania | Sweden |
|---|---|---|---|---|
| Sustainable medium-term growth | 3.7 | 2.5 | 3.9 | 1.8 |
| Social inclusion | -0.3 | 0.5 | 0.2 | -0.5 |
| Environmental protection | 3.7 | 2.5 | 3.9 | 1.8 |
| Governance and institutions | 2.5 | 2.7 | 2.4 | -0.8 |

Source: Swedbank Macro Research.

## The Sustainability Indicators reveal business opportunities and help to identify risks

Peer pressure and policy pressure for companies to advance sustainability are intensifying. Sustainability is increasingly seen as a part of competitive offer, and there is thus a need to measure it. In addition, policy pressure through new regulations implies that businesses need to provide sustainability disclosure[5] and be transparent about their sustainability strategies and policies. Among the potential benefits of integrating sustainability into business (including measuring sustainability-related performance) are the following:

- cost efficiencies (e.g., energy) and better risk management (legal claims and reputational risks);
- innovation and productivity growth, leading both to cost savings and better revenue streams (access to new markets, new product development); and
- talent development and retainment (employee satisfaction and engagement, equal opportunities).

Opportunities, though, do not present themselves without risks. The necessary shift to a low-carbon economy results in a reallocation of resources (e.g., from fossil fuels to renewable energy) and a revaluation of assets; these developments can pose risks to financial stability and present challenges for regulators and central banks in safeguarding the resilience of the financial system and developing a proper framework to finance the transition. The shift itself does not come for granted – emission targets to moderate climate change are ambitious, and there are already backsliding in commitment from some politicians (read: Trump).

## Speeding up in Sweden and catching up in the Baltics

The Sustainability Indicators show that Sweden has to speed up to remain among the leaders in Europe. Three out of the four traffic lights are yellow, and the only green one, *governance*, shows a negative trend. Sweden enjoys high scores for *social inclusion*, but the situation with respect to income inequality and poverty has been worsening in the last few years. The Gini index, which measures income inequality, grew to 27.6 in 2016 from 25.4 in 2014.[6] The at-risk-of-poverty rate has been rising since 2010 (12.9%), before inching down marginally in 2016 (to 16.2%). The gender pay gap, at 14%, is still notable, most likely because a greater percentage of women are still employed in lower-skill (read: lower-paid) sectors or jobs, as the difference between pay in similar positions is substantially smaller. As for the *growth* pillar, education is a challenge – for some indicators, Sweden even lags some of the Baltic countries. About 7.4% of 18-24-year-olds in Sweden leave education/ training early[7] (more than in Lithuania), and 20.2% of 15-year-olds are low achievers in basic skills (more than in Estonia and Latvia) – all below the benchmarks. The share of high-tech exports, at 13.5%, is lower than that of Estonia and the benchmark. For the *environmental protection* pillar, the largest improvements are necessary in the areas of resource productivity and waste generation, which pull down otherwise good results. The target for GHG emission reduction is yet to be fulfilled. In the *governance* pillar, scores have actually diminished somewhat in recent years, although remaining very high. The negative trend is mostly due to the weaker assessment of

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[5] For instance, Directive 2014/95/EU in Europe, requiring large companies to include nonfinancial statements in their annual reports as of 2018 on environmental protection, social responsibility, and other relevant policies.

[6] Scale from 1 to 100; the higher the index, the higher is income inequality. The EU28 average is 25.1.

[7] I.e. they had completed at most a lower secondary education and were not in further education or training during the four weeks preceding the survey

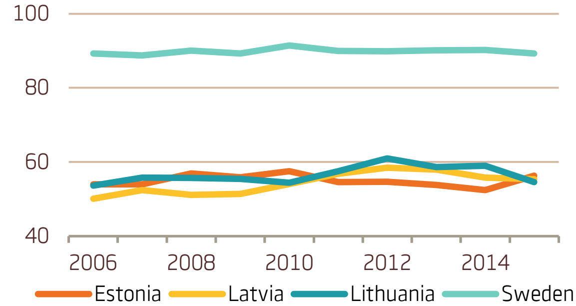
"political stability, absence of violence and terrorism," but the evaluation of government effectiveness has also worsened somewhat since 2010.

The public and private sector can both contribute so that Sweden remains among the leaders in Europe and speeds up progress towards the 2030 Agenda goals. For the government and municipalities, these contributions would be reforms in education, in particular improving equality and accessibility for vulnerable groups. The government can also create better incentives for reducing emissions and the generation of waste. For businesses, there are opportunities in, e.g., investing in new technologies focused on renewable energy, energy storage, and the recycling sector. At the same time, human resource policies focussing on promoting equal opportunities and diversity would improve employee satisfaction and productivity, while increasing energy efficiency would save costs.

The Baltics have a longer way to go than Sweden. Still, except for *social inclusion*, the improvements in the pillars over the past five years, partly driven by economic recoveries, have been remarkable. The largest differences between countries are for the *governance* pillar, with Latvia scoring worst on all indicators (especially in political stability, rule of law, and official development assistance); it reached only about 50% of the benchmark on average. Estonia leads with 70%. The smallest differences between the countries and the lowest scores are for the *social inclusion* pillar. Although the gender pay gap is "in the red" for all three countries, gender inequality seems to be a larger challenge for Estonia than the other Baltic countries; meanwhile, Latvia and Lithuania are struggling the most with higher severe material deprivation rates, i.e., poverty. The latter is actually a bit puzzling, given that their at-risk-of-poverty rates are similar to Estonia's and might be subjective (this is a self-evaluation by households). Importantly, all poverty indicators are in the red for all three countries, as is maternal mortality (Latvia scores worst, with 18 deaths per 100,000 live births). As for the *growth pillar*, Latvia scores worst again, with 61%, while Estonia reaches 71%. Within this pillar, innovations (patents per capita and R&D expenditure) and lifelong learning for adults constitute the most pressing problems for both Latvia and Lithuania; meanwhile, in Estonia, the number of patents is very small despite higher R&D spending. In the *environmental protection* pillar, the Baltics reach 60-70% of the benchmark. Estonia scores worst on many indicators due to its polluting shale oil industry. Energy intensity and resource productivity scores are in the red for all three countries.

While there is a lot of catching up for the Baltics to do in many areas, the most pressing issue for policymakers in Estonia and Lithuania seems to be reducing poverty and gender inequality; meanwhile, in Latvia, improvement of institutions (e.g., rule of law – insolvency and court procedures) is key. Opportunities for Baltic businesses might be even bigger than in Sweden – e.g., there is greater potential for improvement in implementing sustainability practices and increasing energy efficiency. At the same time, this might also be also more costly, as peer pressure domestically is not as strong yet as in Sweden.

**Social inclusion, % of the benchmark**




Source: Swedbank Macro Research.

Overall, Swedbank's Sustainability Indicators show that policymakers, the civil society and the private sector in all four countries should pay particular attention to social inclusion and environmental protection in order to reach the 2030 Agenda. Importantly, long-term growth prospects and well-being are linked to social inclusion and environmental protection, as well as good governance.

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# Appendix 1

The 17 Sustainable development goals


Source: UN.

# Appendix 2

**List of indicators, progress towards UN SDGs (absolute numbers)**

| | Benchmark | EE | LT | LV | SE | SDG |
|---|---|---|---|---|---|---|
| **Growth** | | | | | | |
| Adult participation rate in learning (25-64 yrs, education or training in the last 4 weeks), %* | 20.9 | 15.7 | 6.0 | 7.3 | 29.6 | 4 |
| Early leavers from education and training (% of 18-24 population), %* | 5.3 | 10.9 | 4.8 | 10.0 | 7.4 | 4 |
| Employment rate (20-64 yrs), %* | 76.6 | 76.6 | 75.2 | 73.2 | 81.2 | 8 |
| Low achievers in basic skills, % of 15-year olds | 14.4 | 10.2 | 25.1 | 18.8 | 20.3 | 4 |
| NEET (not in education, employment or training) rate, 15-24 yrs* | 6.2 | 9.1 | 9.4 | 11.2 | 6.5 | 8 |
| R&D expenditure, % of GDP* | 2.9 | 1.3 | 0.7 | 0.4 | 3.3 | 9 |
| Tertiary educational attainment (% of 30-34 population)* | 52.3 | 45.4 | 58.7 | 42.8 | 51.0 | 4 |
| Share of high-tech exports in total exports, % | 20.5 | 15.4 | 7.5 | 9.8 | 13.5 | 9 |
| Number of patent applications, residents (per 1000 persons) | 0.25 | 0.02 | 0.03 | 0.07 | 0.21 | 9 |
| Households - level of internet access, %* | 91.3 | 86.0 | 72.0 | 77.0 | 94.0 | 9 |
| Participation rate for 50-64 yrs, %* | 75.4 | 76.1 | 76.8 | 73.2 | 84.2 | 8 |
| **Social** | | | | | | |
| Gini index* | 25.1 | 32.7 | 37.0 | 34.5 | 27.6 | 10 |
| Severe material deprivation rate, %* | 2.5 | 4.7 | 13.5 | 12.8 | 0.8 | 1 |
| Risk-at-poverty rate, % (after social transfers)* | 12.3 | 21.7 | 21.9 | 21.8 | 16.2 | 1 |
| Maternal mortality ratio, deaths per 100000 live births | 3.7 | 9.0 | 10.0 | 18.0 | 4.0 | 3 |
| Healthy life years at birth /women | 67.6 | 56.2 | 58.8 | 54.1 | 73.8 | 3 |
| Healthy life years at birth/ men | 65.7 | 53.8 | 54.1 | 51.8 | 74.0 | 3 |
| Income quintile ratio S80/S20* | 3.6 | 5.6 | 7.1 | 6.2 | 4.3 | 10 |
| Share of women in national parliaments, %* | 39.5 | 25.7 | 21.3 | 16.0 | 45.8 | 5 |
| Share of women in the boards etc, %* | 29.6 | 8.8 | 14.3 | 28.5 | 36.9 | 5 |
| Gender pay gap, % (unadjusted) | 6.0 | 26.9 | 14.2 | 17.0 | 14.0 | 5 |
| **Environment** | | | | | | |
| Energy intensity (energy consumption, % of GDP) | 90.6 | 355 | 205 | 207 | 111 | 7 |
| GHG emissions intensity of consumption (emissions per consumption unit) | 78.5 | 84.2 | 104.5 | 85.9 | 83.6 | 12 |
| Resource productivity (GDP per domestic material consumption) | 3.4 | 0.9 | 1.5 | 0.8 | 1.5 | 12 |
| Share of renewable energy in gross final energy consumption, % | 34.4 | 28.6 | 25.8 | 37.6 | 53.9 | 7 |
| Share of the population connected to at least secondary urban wastewater treatment, 2005-15 (%)** | 96.9 | 72.3 | 67.2 | 83.0 | 87.0 | 6 |
| GHG emissions per capita (tonns CO2 equivalent) | 5.9 | 13.8 | 5.9 | 7.0 | 5.7 | 13 |
| Material recycling, % of municipal generated waste | 53.8 | 28.3 | 33.1 | 28.7 | 48.0 | 11 |
| Rooms per person* | 2.0 | 1.6 | 1.5 | 1.2 | 1.7 | 11 |
| Air pollution, nitrogen oxides (kg per capita) | 12.5 | 23.4 | 18.8 | 18.4 | 13.3 | 11 |
| Generation of waste, tonns per capita*** | 1.0 | 9.5 | 1.1 | 1.0 | 1.9 | 12 |
| GHG emissions (non-traded), m tonns CO2 equivalent | n/a | 5.8 | 13.0 | 8.9 | 33.7 | 13 |
| **Governance** | | | | | | |
| Official development assistance, % of gross national income*** | 0.8 | 0.2 | 0.1 | 0.1 | 0.9 | 17 |
| Transparency International corruption perceptions index*** | 86.2 | 70.0 | 59.0 | 57.0 | 88.0 | 16 |
| Worldwide governance indicators (Voice and Accountability)*** | 1.5 | 1.2 | 1.0 | 0.9 | 1.5 | 16 |
| Worldwide governance indicators (Political Stability and Absence of Violence)*** | 1.0 | 0.7 | 0.8 | 0.4 | 1.0 | 16 |
| Worldwide governance indicators (Government Effectiveness)*** | 1.8 | 1.1 | 1.1 | 1.0 | 1.8 | 16 |
| Worldwide governance indicators (Regulatory Quality)*** | 1.8 | 1.7 | 1.1 | 1.1 | 1.9 | 16 |
| Worldwide governance indicators (Rule of Law)*** | 2.0 | 1.2 | 1.0 | 1.0 | 2.0 | 16 |
| Basel AML index**** | 3.6 | 3.8 | 3.7 | 4.4 | 4.2 | 16 |

* latest available 2016

** latest available 2013 for Latvia, 2014 for Sweden and Estonia

*** latest available 2014 (bechmark is also fixed at 2014)

**** latest available 2017 (published, data from earlier years)

Source: Swedbank Macro Research, Macrobond, Eurostat, World Bank, European Institute for Gender Equality, Basel, Transparency International.

# Appendix 3

## List of indicators, progress towards UN SDGs (% of the benchmark)

| | % of benchmark | | | | |
|---|---|---|---|---|---|
| | EE | LV | LT | SE | SDG |
| **Growth** | **71** | **61** | **64** | **90** | |
| Adult participation rate in learning (25-64 yrs, education or training in the last 4 weeks), %* | 75 | 35 | 29 | 100 | 4 |
| Early leavers from education and training (% of 18-24 population), %* | 48 | 53 | 100 | 71 | 4 |
| Employment rate (20-64 yrs), %* | 100 | 96 | 98 | 100 | 8 |
| Low achievers in basic skills, % of 15-year olds | 100 | 77 | 58 | 71 | 4 |
| NEET (not in education, employment or training) rate, 15-24 yrs* | 68 | 55 | 66 | 95 | 8 |
| R&D expenditure, % of GDP* | 44 | 15 | 25 | 100 | 9 |
| Tertiary educational attainment (% of 30-34 population)* | 87 | 82 | 100 | 98 | 4 |
| Share of high-tech exports in total exports, % | 75 | 48 | 37 | 66 | 9 |
| Number of patent applications, residents (per 1000 persons) | 9 | 28 | 14 | 84 | 9 |
| Households - level of internet access, %* | 94 | 84 | 79 | 100 | 9 |
| Participation rate for 50-64 yrs, %* | 100 | 97 | 100 | 100 | 8 |
| **Social** | **56** | **55** | **55** | **89** | |
| Gini index* | 77 | 73 | 68 | 91 | 10 |
| Severe material deprivation rate, %* | 53 | 19 | 18 | 100 | 1 |
| Risk-at-poverty rate, % (after social transfers)* | 57 | 56 | 56 | 76 | 1 |
| Maternal mortality ratio, deaths per 100000 live births | 41 | 21 | 37 | 93 | 3 |
| Healthy life years at birth /women | 83 | 80 | 87 | 100 | 3 |
| Healthy life years at birth/ men | 82 | 79 | 82 | 100 | 3 |
| Income quintile ratio S80/S20* | 64 | 58 | 51 | 84 | 10 |
| Share of women in national parliaments, %* | 65 | 40 | 54 | 100 | 5 |
| Share of women in the boards etc, %* | 30 | 96 | 48 | 100 | 5 |
| Gender pay gap, % (unadjusted) | 22 | 35 | 42 | 43 | 5 |
| **Environment** | **58** | **72** | **70** | **82** | |
| Energy intensity (energy consumption, % of GDP) | 26 | 44 | 44 | 82 | 7 |
| GHG emissions intensity of consumption (emissions per consumption unit) | 93 | 91 | 75 | 94 | 12 |
| Resource productivity (GDP per domestic material consumption) | 25 | 24 | 44 | 44 | 12 |
| Share of renewable energy in gross final energy consumption, % | 83 | 100 | 75 | 100 | 7 |
| Share of the population connected to at least secondary urban wastewater treatment, 2005-15 (%)** | 86 | 69 | 75 | 90 | 6 |
| GHG emissions per capita (CO2 equivalent) | 43 | 100 | 85 | 100 | 13 |
| Material recycling, % of municipal generated waste | 53 | 53 | 62 | 89 | 11 |
| Rooms per person* | 79 | 59 | 74 | 84 | 11 |
| Air pollution, nitrogen oxides (kg per capita) | 54 | 68 | 66 | 95 | 11 |
| Generation of waste, tonnes per capita*** | 10 | 99 | 88 | 52 | 12 |
| GHG emissions (non-traded) | 94 | 81 | 89 | 76 | 13 |
| **Governance** | **70** | **51** | **62** | **97** | |
| Official development assistance, % of gross national income*** | 24 | 13 | 18 | 100 | 17 |
| Transparency International corruption perceptions index*** | 81 | 66 | 68 | 100 | 16 |
| Worldwide governance indicators (Voice and Accountability)*** | 78 | 56 | 64 | 97 | 16 |
| Worldwide governance indicators (Political Stability and Absence of Violence)*** | 66 | 37 | 76 | 94 | 16 |
| Worldwide governance indicators (Government Effectiveness)*** | 61 | 55 | 60 | 99 | 16 |
| Worldwide governance indicators (Regulatory Quality)*** | 93 | 59 | 63 | 100 | 16 |
| Worldwide governance indicators (Rule of Law)*** | 63 | 48 | 52 | 100 | 16 |
| Basel AML index**** | 94 | 81 | 98 | 85 | 16 |

* latest available 2016

** latest available 2013 for Latvia, 2014 for Sweden and Estonia

*** latest available 2014 (bechmark is also fixed at 2014)

**** latest available 2017 (published, data from earlier years)

Traffic lights - Sweden: >90% for green, 70-90% for yellow, Baltics: >80% for green, 60-80% for yellow.

Source: Swedbank Macro Research.

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