The Investor's Rutter in Practice

Lessons from Nine Countries — From Country Conditions to Investment Risk

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Companion paper to The Emerging Market Investor's Guide to Country Risk

Executive summary

This companion paper applies the Investor's Rutter to nine country cases — Argentina, Chile, Egypt, India, Indonesia, Kenya, South Africa, Türkiye and Vietnam — chosen to span very different combinations of growth, institutions, resource endowments, policy regimes and financial conditions. Every case considers the same two hypothetical long-duration investments: ten-year senior debt to a locally regulated financial institution and 15–20-year senior project-finance debt to a utility-scale renewable energy project. Holding the investments constant isolates what changes across countries and what changes across investments. Each case ends with a relative investment-risk judgement (Lower, Moderate, Moderate–High or High) that is comparative, not a rating. The cases are used as evidence of where the Rutter changes, sharpens or qualifies an investor's judgement, not as abbreviated country reports.

Main findings. Condition and trajectory can diverge sharply. Attractive Endowments are common, but Enablers determine whether they are converted into investable value. State capability is not the same as institutional predictability. Reform matters when it becomes institutionalised, and political legitimacy is part of the economic mechanism. Outcomes are evidence, not conclusions, and fiscal risk is broader than the debt ratio. At investment level, the same country forces reach a bank and a renewable project through different mechanisms, and similar risks can have different country origins. Country risk is dynamic, institutional and investment-specific: the Rutter works as a sequence of questions, not a score.

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1. Purpose and method

The Investor's Rutter (IR) is a disciplined framework to guide judgement about country risk conditions and their impact on investments, rather than a country-scoring system. The IR begins with four questions.

(i) What does a country possess — its ***Endowments***?

(ii) What institutions and capabilities convert those assets into economic value — its ***Enablers***?

(iii) What political, financial and external forces are acting on that conversion process — its ***Context***? and

(iv) What ***Outcomes*** are visible, and are they sustainable?

Importantly, the Rutter distinguishes between a country's **condition** and its **trajectory**. Condition asks where the country stands today; trajectory asks where it is heading and why. A country in weak condition may be improving, while one in apparently strong condition may be deteriorating. For a long-term investor, both matter — and trajectory may sometimes matter more.

After exploring these questions, the final step is the investment question: how do those forces reach the cash flows, counterparties, collateral and recovery mechanisms of the particular investment under consideration?

For this paper we have prepared nine country cases. These are: Argentina, Chile, Egypt, India, Indonesia, Kenya, South Africa, Türkiye and Vietnam. The selection was undertaken deliberately to span very different combinations of growth, institutions, resource endowments, policy regimes and financial conditions. Every country case considers the same two hypothetical long-duration investments:

(i) 10-year senior debt to a substantial locally-regulated financial institution; and

(ii) 15–20-year senior project-finance debt to a utility-scale renewable-energy project.

Holding the investment forms constant allows the analysis to isolate what changes across countries and what changes across investments.

For each case, we also provide a relative investment-risk judgement for the two hypothetical investments. These are comparative judgements across the cases, not country ratings or ratings of actual transactions. They are intended to show how the same country conditions can produce different investment risks. We use four broad categories: Lower, Moderate, Moderate–High and High.

We also overlay the discussion with a "weather, winds and currents" taxonomy to enhance further the analysis. These terms are defined to be:

(i) ***Weather*** is what is happening now — inflation, an election, a fiscal shock, a currency move or a market rally;

(ii) ***Winds*** are forces that can persist for several years — a reform programme, commodity cycle, global trade shift or tightening in financial conditions;

(iii) ***Currents*** are deeper: institutions, state capability, demographics, economic structure, political settlements and the mechanisms through which Endowments are converted into Outcomes.

The analytical danger is misclassification: mistaking favourable weather for a favourable current, treating a temporary reform wind as structural change, or allowing a storm to obscure institutional resilience.

In this companion paper, our aim is not to produce nine abbreviated country reports. Instead, we use the cases as evidence to demonstrate where the Rutter changes, sharpens or qualifies an investor's judgement.

2. Nine countries through the Rutter

Argentina — good weather, a strong wind, but has the current changed?

Argentina is a useful illustration of why condition and trajectory should not be confused. Current conditions have improved markedly. Fiscal discipline, deregulation, greater openness and monetary stabilisation have produced a significant policy inflection. Inflation has fallen sharply, fiscal performance has strengthened and market confidence has improved. Market access has also improved, although FX reserve buffers remain relatively thin and durable access is not yet assured.

But improved conditions do not, by themselves, establish a durable trajectory. Argentina has substantial Endowments — agriculture, energy, mining and human capital — and has demonstrated repeatedly that it can generate periods of strong economic performance. The persistent weakness has been in the Enablers: policy credibility, institutional predictability, monetary and fiscal discipline, and the ability to sustain reforms through political and economic cycles. These weaknesses have repeatedly impaired the conversion of strong Endowments into durable Outcomes.

The central Rutter question is therefore whether today's favourable weather and strong reform wind are beginning to change the underlying current. There are encouraging signs, but the evidence is not yet conclusive. The test is whether fiscal discipline, monetary credibility and greater openness become sufficiently embedded to survive political turnover and the next period of economic stress.

This guards against two opposite errors. The first is to extrapolate today's improved conditions into long-duration valuations before the underlying Enablers have changed. The second is to dismiss the reforms because earlier reform episodes ultimately reversed. The Rutter does neither: it identifies what would need to change — and what evidence the investor should watch — before concluding that the longer-term trajectory has fundamentally improved.

The distinction also matters at the investment level. For ten-year financial-institution debt, country risk transmits through deposit dollarisation, FX and maturity mismatches, asset quality, sovereign exposure and the credibility of supervision. For 15–20-year renewable project debt, the more important channels are convertibility, tariff and cost recovery, regulatory durability, grid capacity and the federal–provincial interface. In both cases, today's improved macroeconomic environment helps; neither investment can yet assume that it will persist throughout its life.

Creditor and contract protection also matters across both investments: the investor needs to test the practical predictability of creditor rights, security and collateral enforcement, insolvency or resolution, and dispute settlement. For renewable project debt, particular attention should be given to PPA enforceability, change-in-law protection, termination compensation, arbitration and the enforceability of awards, including where a public or state-linked counterparty is involved.

Rutter judgement: sharply improved condition / longer-term trajectory remains to be proven.

Relative investment risk: financial-institution debt — Moderate–High | renewable project debt — High. The distinction reflects the longer duration and greater exposure of the project to convertibility, regulatory and contractual durability, and public-sector interfaces.

Chile — disappointing weather, but stronger currents

Chile presents a different condition–trajectory problem from Argentina. Current conditions are relatively unexciting. Growth has been modest, investment and productivity have disappointed, fiscal performance has weakened and politics have become more polarised. Viewed principally through recent Outcomes, Chile can appear to have lost some of the exceptionalism that long distinguished it within emerging markets.

The deeper picture is more reassuring. Chile retains substantial Endowments — particularly copper, lithium and renewable-energy resources — but its greater strength lies in its Enablers. A credible central bank, flexible exchange rate, strong financial supervision, established fiscal institutions and comparatively effective public administration have repeatedly helped the economy absorb shocks without turning them into broader macroeconomic crises. The current is therefore considerably stronger than the recent weather might suggest.

The Rutter nevertheless cautions against complacency. Strong institutions can erode gradually. Persistently weak productivity and investment, repeated fiscal misses and political difficulty in implementing reforms could eventually weaken both economic performance and institutional credibility. The key question is therefore not whether Chile's institutions remain relatively strong — they do — but whether they can translate the country's Endowments into stronger investment and productivity before prolonged weak Outcomes begin to undermine the Enablers themselves.

This guards against the opposite error to Argentina. In Argentina, sharply improved conditions could be mistaken for proof of structural change. In Chile, disappointing conditions could be mistaken for evidence that the underlying institutional current has already deteriorated. Neither conclusion follows from the weather alone.

For ten-year financial-institution debt, Chile's institutional and macroeconomic resilience provides meaningful protection, although asset quality, real-estate and construction exposures, household leverage, funding and capital buffers remain relevant. For 15–20-year renewable project debt, the country's resource potential and institutional framework are supportive, but bankability depends more specifically on permitting, transmission and grid capacity, curtailment, offtaker arrangements and regulatory durability. In both investments, strong country-level Enablers reduce risk; they do not remove investment-specific execution risk.

Creditor and contract protection should nevertheless be tested at transaction level. For financial-institution debt, this includes creditor rights, resolution and security enforcement; for renewable project debt, PPA enforceability, change-in-law and termination provisions, dispute settlement and the practical enforceability of remedies. Strong institutions reduce these risks, but do not substitute for transaction-specific legal analysis.

<u>Rutter judgement</u>: relatively strong condition despite weak recent Outcomes / fundamentally sound trajectory, but dependent on restoring investment, productivity and fiscal discipline.

<u>Relative investment risk</u>: financial-institution debt — Moderate | renewable project debt — Moderate. Country-level institutional strength is supportive in both cases; the project risk is driven more by transmission, curtailment, permitting and the specific contractual structure.

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Egypt — better weather, but the current is less certain

Egypt illustrates the difference between stabilisation and structural improvement. Current conditions have become more favourable. Growth has recovered, inflation has moderated, foreign-exchange pressures have eased and reserve buffers and market access have improved. The policy response has therefore reduced immediate macroeconomic stress.

The longer-term trajectory is less clear. Egypt has important Endowments — a population of more than 100 million, the Suez Canal, a strategic geographic position, tourism, gas and substantial solar and wind resources. The difficulty has been converting these advantages consistently into productive private investment and sustainable growth. Here, the constraint lies largely in the Enablers: the scale and role of the state in the economy, incomplete divestment, military-linked commercial activity, governance of state-owned enterprises and banks, and a fiscal structure burdened by high financing and interest costs.

The question is whether recent stabilisation is beginning to alter these deeper forces, or whether it is principally buying time. Improved foreign-exchange conditions and renewed access to external financing matter, but neither by itself demonstrates that private-sector space, competitive neutrality, fiscal flexibility or institutional transparency have strengthened sufficiently to support a durable change in trajectory.

The analytical risk is to confuse successful crisis management with structural reform. Egypt has demonstrated meaningful capacity to stabilise the economy under pressure. That is an important strength. But state capacity is not the same as institutional predictability, and the ability to manage a crisis does not necessarily imply that the mechanisms generating vulnerability have changed.

For ten-year financial-institution debt, the main transmission channels are the sovereign–bank relationship, exposure to state-directed lending, foreign-exchange liquidity, the quality and recognition of impaired assets, and the governance of state-owned or state-influenced institutions. For 15–20-year renewable project debt, the more important issues are sovereign and offtaker strength, convertibility, tariff and cost recovery, payment arrears, grid capacity and the reliability of state counterparties. In both cases, better macroeconomic conditions help, but the investment remains exposed to the institutional framework through which the state allocates risk and financial resources.

The legal and contractual framework is especially important where the state or a state-linked entity is central to the transaction. Financial-institution lenders need to assess creditor rights, resolution, security enforcement and the treatment of claims under stress. Project lenders need to test PPA enforceability, termination compensation, change-in-law protection, arbitration and the practical ability to enforce remedies against the relevant counterparty.

Rutter judgement: materially improved condition / trajectory still dependent on whether stabilisation is followed by deeper institutional and structural reform.

Relative investment risk: financial-institution debt — Moderate–High | renewable project debt — High. In both cases, sovereign and institutional exposure is material; the project adds long-duration reliance on state counterparties, convertibility and contractual enforcement.

India — strong weather, supportive winds, but an unfinished transition

India begins from a relatively strong position. Current conditions are favourable. Growth remains above 6%, inflation has moderated, the current-account position is manageable and external buffers provide meaningful resilience. India also benefits from exceptional Endowments: a very large domestic market, favourable demographics, a diversified productive base, substantial domestic savings and considerable renewable-energy potential.

The trajectory is also broadly positive, supported by improvements in important Enablers. Inflation targeting, the GST, digital public infrastructure, substantial infrastructure investment, stronger bank balance sheets and efforts at fiscal consolidation have improved the economy's capacity to convert its Endowments into growth. These are not simply favourable weather; several represent institutional changes that have become increasingly embedded.

But the Rutter cautions against extrapolating strong headline growth too far. The institutional transition remains incomplete. General-government debt remains high, reform and administrative capacity vary considerably across states, and constraints around land, judicial processes, insolvency resolution and human capital remain important. A further question is whether private investment can increasingly take over from the public sector as a driver of capital formation. Strong Outcomes therefore provide evidence of progress, but not proof that all of the underlying Enablers are equally strong.

The central Rutter question is whether India can sustain its current trajectory as the demands placed on its institutions become greater. Rapid growth itself creates new requirements — for infrastructure, finance, skills, urban services, energy and effective dispute resolution. The challenge is therefore less whether India has embarked on a favourable path than whether institutional development can continue fast enough to support it.

For ten-year financial-institution debt, the overall environment is supportive, but the relevant transmission channels include NBFC and group interconnectedness, credit concentration, sovereign exposure, governance, loss absorption and the effectiveness of insolvency and resolution mechanisms. For 15–20-year renewable project debt, India's exceptional physical opportunity must still pass through state-level implementation, land acquisition and permitting, grid and transmission capacity, DISCOM and other offtaker risks, and tariff arrangements. The distinction is important: a compelling national growth story does not automatically make an individual project bankable.

Rule of law and enforcement therefore form part of the investment test rather than a general country conclusion. For financial-institution debt, the focus is on creditor rights, insolvency and resolution effectiveness and the speed and predictability of enforcement. For project debt, it extends to land rights, PPA enforceability, termination and change-in-law protection, dispute resolution and differences in implementation across states.

<u>Rutter judgement</u>: strong condition / positive trajectory, with durability increasingly dependent on institutional capacity keeping pace with growth and completing the remaining reform agenda.

<u>Relative investment risk</u>: financial-institution debt — Moderate | renewable project debt — Moderate–High. The national trajectory is supportive, but project risk is more exposed to state-level execution, offtaker strength, land, transmission and contractual enforcement.

Indonesia — good weather, but watch the current

Indonesia presents a different challenge again. Current conditions are relatively strong. Growth remains around 5%, inflation is well anchored, the current-account position is manageable, public and external debt are moderate and the banking system is well capitalised. Indonesia also possesses substantial Endowments: a population of more than 280 million, a large domestic market, abundant natural resources and an increasingly important position in regional supply chains.

Much of this resilience reflects stronger Enablers built over time. Fiscal discipline, monetary credibility, improved external buffers and a more resilient financial system have helped Indonesia manage successive external shocks without the instability experienced in earlier periods. These institutional gains constitute an important underlying current and support a broadly positive trajectory.

The Rutter, however, directs attention to a possible change beneath the favourable Outcomes. The development model is becoming more state-led, including through Danantara, state-owned enterprises and public-sector financial institutions. This may improve coordination and accelerate investment, but it could also increase directed lending, quasi-fiscal activity, contingent liabilities and opacity around the allocation of capital. The issue is not that these risks have already materially weakened Indonesia's condition; rather, they could gradually weaken some of the Enablers that produced today's strong condition.

Indonesia therefore illustrates an important forward-looking use of the Rutter. Good Outcomes should not simply be extrapolated. The investor needs to ask whether changes in governance, the fiscal perimeter and the role of the state are reinforcing or weakening the institutional framework beneath them. In this case, the first evidence of a changing trajectory may appear in the Enablers before it becomes visible in growth, inflation or bank performance.

For ten-year financial-institution debt, the relevant transmission channels include policy-directed or subsidised lending, sovereign and SOE concentration, foreign-exchange exposure, asset quality and the independence and effectiveness of financial regulation. For 15–20-year renewable project debt, the issues shift towards procurement and project selection, tariffs and subsidies, grid capacity, the coal transition, currency risk, offtaker strength and the respective roles of Danantara, SOEs and private investors.

The investment analysis should also test whether contractual and creditor protections remain predictable as the role of the state expands. For financial-institution debt, this includes creditor rights, resolution, security enforcement and treatment of creditors under stress. For project debt, the relevant questions include procurement integrity, PPA enforceability, change-in-law and termination protection, dispute resolution and the enforceability of remedies involving SOE or other state-linked counterparties.

Rutter judgement: strong current condition / broadly positive trajectory, but with an emerging question over whether a more state-led development model will strengthen or gradually weaken the underlying Enablers.

Relative investment risk: financial-institution debt — Moderate | renewable project debt — Moderate–High. Current financial-system strength supports the former; the latter carries greater exposure to policy, SOE, procurement, currency and long-duration contractual risks.

Kenya — when political legitimacy becomes an economic constraint

Kenya presents a more finely balanced picture. Current conditions are mixed but more stable than they were. Growth remains around 5%, inflation has eased, the shilling has stabilised and external market confidence improved after the successful return to Eurobond markets. But public debt and debt-service pressures remain high, fiscal space is limited and the sovereign continues to face a demanding adjustment path.

Kenya nevertheless has important Endowments and Enablers. It has a diversified and entrepreneurial economy, strong services and financial sectors, significant remittance flows, a regional commercial role and considerable renewable-energy potential. It also retains functioning institutions and a degree of administrative and market capacity that has historically supported resilience.

The harder question concerns trajectory. Fiscal consolidation is economically necessary, but the 2024 Finance Bill protests demonstrated that adjustment cannot be treated as a purely technocratic exercise. The capacity to raise revenue depends on political legitimacy, perceptions of fairness, trust in government and confidence that public resources are being used effectively. In that sense, the protests were not merely political weather. They exposed a deeper constraint in the Enablers through which fiscal policy must operate.

The question is whether Kenya can restore fiscal sustainability in a manner that is both economically credible and politically executable. Failure to do so risks a cycle in which weak revenue mobilisation, high debt-service costs, expenditure compression and political resistance reinforce one another. Conversely, credible fiscal reform accompanied by stronger governance and better implementation could materially improve the trajectory.

This is also where the Rutter adds to a conventional debt-sustainability view. Kenya's risk cannot be captured by debt ratios alone. Debt service, revenue capacity, pending bills, sovereign exposure in the banking system and the political feasibility of adjustment all matter. The fiscal arithmetic and the institutional capacity to deliver it have to be judged together.

For ten-year financial-institution debt, the main transmission channels are rising NPLs, sovereign exposure, pending government bills, concentration risk, funding and FX positions, and the regulatory response to deterioration in asset quality. For 15–20-year renewable project debt, the relevant issues include KPLC and other offtaker risks, tariff and regulatory stability, procurement, grid and curtailment risk, foreign-exchange exposure and the durability of sector reforms.

Creditor and contractual enforcement should be made explicit in both cases. Financial-institution lenders need to consider creditor rights, insolvency and resolution, security enforcement and recovery in practice. Renewable-project lenders should assess PPA enforceability, termination compensation, change-in-law protection, arbitration and the enforceability of claims where the offtaker or support provider is public or state-linked.

Rutter judgement: stabilising but still constrained condition / trajectory depends heavily on whether fiscal adjustment can become politically legitimate, institutionally credible and operationally deliverable.

Relative investment risk: financial-institution debt — Moderate–High | renewable project debt — High. Fiscal pressure and the sovereign–bank nexus weigh on the former; the project adds material offtaker, FX, tariff, regulatory and contractual-enforcement exposure over a longer tenor.

South Africa — strong foundations, weak conversion

South Africa presents an apparent contradiction. Current economic conditions are weak. Growth remains subdued, unemployment and inequality are exceptionally high, investment has disappointed and fiscal pressures have increased. Electricity, logistics and infrastructure constraints have materially reduced the economy's productive capacity. Judged principally by Outcomes, South Africa can appear to be on a persistently weak trajectory.

Yet the underlying picture is more complicated. South Africa retains substantial Endowments — a diversified economy, significant mineral resources and sophisticated financial markets — alongside important Enablers. The central bank remains credible, the exchange rate is flexible, financial supervision is strong, domestic capital markets are deep and much public debt is financed in local currency. These institutional strengths have repeatedly allowed the economy to absorb shocks that might have produced much greater instability elsewhere.

The central Rutter problem is therefore one of conversion. Strong Endowments and relatively strong institutions have not translated into adequate growth and investment. Weaknesses in state capacity, electricity and logistics, governance, procurement, state-owned enterprises and local government have impaired the mechanism through which the country's assets are converted into Outcomes.

There are signs that the trajectory may be improving. Electricity and logistics reforms, greater private-sector participation and the reform agenda associated with Operation Vulindlela offer a route towards easing some of these constraints. But the test is implementation. This argues against both excessive pessimism based on weak current Outcomes and excessive optimism based on reform announcements. The question is whether reforms become sufficiently embedded to improve the conversion process itself.

South Africa also demonstrates that weak Outcomes do not necessarily imply weak shock-absorbing capacity. Strong monetary and financial institutions can protect investors from some forms of instability even while structural weaknesses suppress growth. The longer-term risk is that persistently poor Outcomes eventually feed back into the Enablers through rising public debt, weaker state capacity and declining institutional effectiveness.

For ten-year financial-institution debt, the relatively strong banking and regulatory framework provides meaningful protection, but sovereign exposure, NPLs, SME and unsecured lending, funding and the sovereign–bank nexus remain important transmission channels. For 15–20-year renewable project debt, market opening creates substantial opportunity, but bankability depends on transmission and grid capacity, Eskom and municipal payment performance, tariff arrangements, procurement, implementation of the new electricity-market framework and the durability of reform.

The comparatively strong institutional framework should not remove the need for transaction-level enforcement analysis. For financial-institution debt, creditor rights, resolution and security enforcement remain relevant. For renewable project debt, the focus should include PPA and other contractual enforceability, change-in-law and termination protection, dispute resolution, and the practical enforceability of remedies against public, municipal or state-linked counterparties.

Rutter judgement: weak economic condition but substantial institutional resilience / cautiously improving trajectory, dependent above all on implementation and restoration of the conversion mechanism.

Relative investment risk: financial-institution debt — Moderate | renewable project debt — Moderate. Institutional and financial resilience provide meaningful protection; for projects, the principal residual risks lie in grid and transmission constraints, counterparty payment performance and implementation of the evolving market framework.

Türkiye — normalization underway, credibility still being rebuilt

Türkiye is another case where condition and trajectory need to be separated carefully. Current conditions have improved from the period of acute macroeconomic stress. Monetary policy has tightened, fiscal policy has become more disciplined, inflation has begun to fall from very high levels, reserve buffers have improved and demand for lira assets has strengthened. Growth has also remained relatively resilient.

The longer-term question is whether this normalization represents a durable change in the Enablers. Türkiye has substantial Endowments — a large population, a diversified industrial base, deep integration into European supply chains, strong tourism, good infrastructure and significant renewable-energy potential. It also has considerable administrative and productive capacity. But these strengths have repeatedly been discounted by weak monetary credibility, policy reversibility and political intervention in economic management.

The question is whether the recent policy shift is changing expectations about how the system will behave through the next political or economic stress. Higher interest rates and stronger reserves improve current conditions, but the deeper test is whether monetary credibility, central-bank independence, policy transparency and fiscal discipline become sufficiently embedded to survive pressure. The issue is not simply whether policy is orthodox today, but whether investors believe it will remain so when the costs of orthodoxy rise.

Türkiye consequently guards against another common analytical error: treating policy normalization as equivalent to institutional normalization. The two are related, but they are not the same. A favourable reform wind can improve Outcomes quickly; rebuilding credibility in the underlying current takes longer.

For ten-year financial-institution debt, the principal transmission channels are deposit stability, foreign-currency liquidity, borrower FX mismatches, asset quality under high real rates, external funding and the credibility of the CBRT and BRSA. For 15–20-year renewable project debt, the more important issues are currency mismatch, tariff and indexation arrangements, cost recovery, financing conditions, grid capacity, permitting, subsidy frameworks and the durability of sector policy.

Long-duration investors should also distinguish policy credibility from legal and contractual protection. Financial-institution debt requires attention to creditor rights, resolution, security enforcement and treatment under stress. Project debt requires testing PPA and tariff enforceability, change-in-law and termination provisions, dispute settlement and the practical enforceability of remedies if policy or regulatory conditions change.

Rutter judgement: materially improved condition / positive trajectory, but still constrained by the need to rebuild durable policy and institutional credibility.

Relative investment risk: financial-institution debt — Moderate–High | renewable project debt — Moderate–High. Both remain exposed to currency and policy credibility; project debt adds longer-duration tariff, regulatory and contractual-durability risk.

Vietnam — strong outcomes, but look beneath them

Vietnam presents one of the strongest sets of headline Outcomes in the group. Current conditions are favourable. Growth has been rapid, inflation contained, the current account remains in surplus and the country continues to attract substantial foreign direct investment as it integrates more deeply into Asian and global supply chains. Public debt is relatively low, providing useful fiscal room.

These Outcomes rest on important Endowments and some genuinely strong Enablers. Vietnam has a population of around 100 million, a competitive labour force, advantageous geography and substantial renewable-energy potential. More importantly, the state has demonstrated considerable administrative capability in infrastructure, industrial policy, education and the mobilisation of investment. Its success in positioning Vietnam within global manufacturing supply chains is itself evidence of that capability.

But the Rutter asks the investor to look beneath these strong Outcomes. Vietnam remains heavily dependent on a bank-dominated financial system in which rapid credit growth, property exposures, cross-ownership and relatively thin capital and liquidity buffers create vulnerabilities. Transparency and data quality remain uneven, while insolvency, bank resolution and the mechanisms through which financial losses are recognised and allocated are still developing. Foreign-exchange reserve adequacy also warrants attention.

The distinction is important: state capability is not the same as institutional predictability. A state can be highly effective at directing resources and delivering development objectives while remaining less transparent about how financial stress will ultimately be resolved and who will bear the losses. For the long-term investor, this becomes particularly important when the economic cycle turns. Strong growth can conceal weaknesses in the financial architecture precisely because those weaknesses are easiest to manage while Outcomes remain favourable.

Vietnam therefore illustrates another Rutter warning: good Outcomes are evidence, not conclusions. The question is not whether Vietnam's development model has been successful — clearly it has — but whether the financial and institutional Enablers are developing sufficiently quickly to support the next stage of growth and manage the risks created by the previous one.

For ten-year financial-institution debt, this directs attention beyond reported capital and NPL ratios towards the quality of capital, related-party and sector concentrations, regulatory forbearance, property exposure, FX and off-balance-sheet risks, collateral enforcement and bank-resolution arrangements. The underlying question is straightforward: if significant losses emerge, how quickly will they be recognised, and who will ultimately bear them? For 15–20-year renewable project debt, the transmission channels are different: grid investment and curtailment, tariff arrangements, state counterparties, convertibility, permitting and land, and the durability and enforceability of PPAs.

The rule-of-law question is particularly relevant to the distinction between state capability and institutional predictability. Financial-institution lenders need to test creditor rights, collateral enforcement, resolution and the allocation of losses in practice. Project lenders should test land and permitting rights, PPA enforceability, termination and change-in-law protection, dispute settlement and the practical enforceability of remedies involving state counterparties.

<u>Rutter judgement:</u> strong current condition and broadly positive trajectory / but with financial-system transparency, institutional predictability and loss allocation as important tests of durability.

<u>Relative investment risk</u>: financial-institution debt — Moderate–High | renewable project debt — Moderate–High. Strong growth and state capability are supportive, but both investments remain exposed to institutional predictability; the channels differ between loss allocation and resolution for the bank and contractual, grid and state-counterparty risks for the project.

3. What comparison across the nine cases reveals

Condition and trajectory are different — and investors need both

Argentina shows an improving trajectory from a vulnerable starting point; Türkiye shows policy normalisation while credibility remains fragile. Chile and South Africa show the opposite configuration: substantial institutional resilience alongside disappointing growth or fiscal Outcomes. Indonesia adds a third case: strong current Outcomes while an institutional change may be occurring underneath them. A static country score compresses these distinctions. For long-duration capital, the rate, direction and durability of change can matter as much as the starting condition.

Endowments create opportunity; Enablers determine conversion

Attractive Endowments are common across the nine countries. Argentina has agriculture, energy and mining; Egypt has strategic geography and exceptional renewable resources; India and Indonesia have continental-scale markets; Chile has copper, lithium and world-class renewable potential. Yet the cases repeatedly show that Endowments are not investability. Institutions, infrastructure, fiscal credibility, market design, creditor rights, governance and administrative execution determine whether resources and demographics become durable cash flows. South Africa is the clearest example: the binding problem is conversion, not scarcity.

State capacity and institutional predictability are not the same thing

Vietnam, Türkiye and Egypt illustrate different versions of the same distinction. A state may be capable of delivering infrastructure, stabilising markets or implementing difficult policy while remaining less predictable in data, regulation, loss allocation, monetary governance or the relationship between the state and private capital. Investors need evidence not only that government can act, but that rules, incentives and creditor treatment remain sufficiently predictable when conditions turn adverse.

Reform matters when it becomes institutionalised

Across Argentina, Egypt, South Africa and Indonesia, the Rutter shifts attention from announcement to durability. A reform is most valuable when it changes institutions, incentives and behaviour sufficiently to survive the government, financing conditions or political circumstances that produced it. This is the point at which a favourable wind begins to become a favourable current. The relevant monitoring question is therefore not simply whether the policy is sensible, but whether it becomes self-reinforcing and harder to reverse.

Political legitimacy is part of the economic mechanism

Kenya makes the point most explicitly. Fiscal consolidation may be economically necessary but politically unexecutable if taxation and expenditure are not regarded as fair or credible. Argentina and Türkiye show how politics can transmit rapidly into dollarisation, reserve loss, currency pressure and financing conditions. Politics is therefore not a qualitative overlay on macro analysis; it is one of the channels through which country risk reaches an investment.

Outcomes are evidence, not conclusions

Vietnam's strong growth and external performance coexist with rapid credit growth and financial-sector vulnerabilities. Indonesia's well-capitalised banks can still face future risk through policy-directed

capital allocation. India's strong growth coexists with high public debt and uneven state capacity. South Africa demonstrates the converse: weak growth need not imply weak shock absorption. The Rutter asks what produced an Outcome and whether the mechanism is sustainable. It does not treat the Outcome itself as the end of the analysis.

Fiscal risk is broader than the debt ratio

The nine cases repeatedly weaken the usefulness of debt-to-GDP as a standalone indicator. Kenya's fiscal pressure reaches the private economy through pending bills and the sovereign-bank nexus. Indonesia raises questions about quasi-fiscal activity outside the conventional perimeter. Egypt remains exposed through gross financing needs and interest costs; India through high general-government debt despite strong external buffers. The relevant variables are debt service, maturity, currency, revenue capacity, contingent liabilities, quasi-fiscal activity and the relationship between the sovereign and domestic financial institutions.

4. What the two investments teach us

The strongest practical result from the exercise is that a country does not have one investment risk. The same country forces reach a financial institution and a renewable-energy project through different mechanisms. That is not an inconsistency in the framework; it is precisely the point of applying country analysis at investment level.

Country force	Financial-institution debt	Renewable-project debt
Fiscal / sovereign stress	Sovereign holdings; arrears; funding costs; crowding-out; regulatory response	Offtaker strength; sovereign support; tariff adjustment; payment arrears
Monetary / FX conditions	Deposit stability; dollarisation; FX liquidity; borrower mismatches; asset quality	Convertibility; debt-service currency mismatch; indexation; repatriation
Institutions / governance	Supervision; loss recognition; resolution; forbearance; directed lending	Procurement; permitting; contract enforcement; regulatory durability; land
Infrastructure / state capacity	Indirectly through growth, borrower performance and operational resilience	Grid access; transmission; curtailment; connections; implementation
Political economy	Deposit behaviour; policy reversals; credit conditions;	Tariff politics; project approvals; community consent; PPA durability

Country force	Financial-institution debt	Renewable-project debt
	sovereign-bank nexus	

The financial-institution cases show particularly clearly how country risk changes as it reaches the bank balance sheet. In Kenya, the immediate issue is not simply the sovereign debt ratio. Fiscal pressure can reach a bank through government securities, pending public-sector bills, weaker borrowers and deteriorating asset quality. Political resistance to fiscal adjustment can therefore become a banking risk.

Türkiye and Vietnam illustrate a different problem: credibility and loss recognition. In Türkiye, monetary normalisation improves current conditions, but a ten-year bank lender remains exposed to deposit behaviour, dollarisation, borrower FX mismatches and the durability of monetary and regulatory policy. In Vietnam, strong growth and apparently sound banking Outcomes do not answer the most important creditor question: if rapid credit growth, property exposure or related-party lending ultimately produces losses, how quickly will those losses be recognised, and who will bear them? State capability may be strong while transparency, resolution and loss-allocation mechanisms remain less developed.

Indonesia provides a more forward-looking example. Banks currently appear strong, but a more state-led development model could gradually increase directed lending, SOE concentration or quasi-fiscal exposure. The potential change is therefore in the Enablers, before it necessarily appears in NPLs, capital ratios or profitability. In South Africa, almost the reverse applies: weak economic Outcomes coexist with comparatively strong supervision, deep capital markets and substantial institutional resilience. Weak growth matters to the bank, but it does not imply the same banking risk as weak growth in a country with much weaker financial institutions.

The renewable-project cases demonstrate a parallel distinction between physical opportunity and contractual economics. Nearly all nine countries have attractive renewable resources or strong structural demand. But abundant sun or wind is an Endowment, not a bankable project.

Consider Chile. Its strong institutions, credible macro framework and exceptional renewable resources create a favourable country setting, yet a project can still fail economically because of transmission constraints, curtailment, permitting or the specific offtake structure. Strong country Enablers do not eliminate project risk; they change its composition. The investor can spend less time worrying about convertibility or arbitrary policy reversal and more time analysing the project's actual commercial and infrastructure constraints.

In Kenya and Egypt, the transmission is different. A technically sound renewable project can inherit sovereign and fiscal weakness through a public . Tariffs may not recover costs; payments may be delayed; government support may weaken; or foreign exchange needed for debt service may become difficult to obtain. The project may therefore have excellent physical economics but weak contractual economics.offtaker

Argentina adds a time dimension. Today's improved macroeconomic environment makes renewable investment more attractive, but a 15–20-year lender cannot simply extrapolate current policy. Convertibility, tariff arrangements, regulatory durability and the federal–provincial interface expose the project to the unresolved question identified in the country analysis: has the underlying current changed, or only the weather and wind? The same question reaches a ten-year bank loan differently—through deposit dollarisation, FX liquidity, asset quality and sovereign exposure.

India provides another useful contrast. The national growth story and renewable opportunity are compelling, but project bankability can still turn on state-level Enablers: land acquisition, permitting, transmission, DISCOM strength and tariff arrangements. Country analysis therefore sometimes has to move below the sovereign level before it reaches the investment.

Taken together, the two investments reveal three broader lessons.

First, the same country risk does not produce the same investment risk. Fiscal weakness may reach a bank through its sovereign portfolio and a renewable project through its offtaker. Weak institutions may appear in a bank through forbearance and loss recognition, and in a project through permitting or contract enforcement.

Second, similar investment risks can have different country origins. FX risk in Argentina may principally reflect questions of macroeconomic credibility and policy durability; in Egypt it may be associated more closely with external financing needs and the role of the state; in Türkiye it is tied to monetary credibility and dollarisation. Calling all three simply "FX risk" loses information that matters for monitoring and mitigation.

Third, country analysis does not end with the country. Sovereign ratings, macro scores and even a high-quality country narrative are inputs, not investment conclusions. The final Rutter question is always the same: how do the country's Endowments, Enablers and Context reach the cash flows, counterparties, collateral and recovery mechanisms of this particular transaction over its life?

5. What the nine cases teach us about the Rutter

Applying the Rutter across nine very different countries tells us something about the framework itself. Five lessons stand out.

First, the Rutter works best as a sequence of questions, not a scoring mechanism. It forces the investor to move from what the country possesses, through the institutions that convert those assets into economic value, to the Context acting on that conversion process, the Outcomes that result and, finally, the route by which those forces reach the investment. The cases show why that sequence matters. South Africa, for example, has substantial Endowments and some strong Enablers, but weak conversion has produced persistently disappointing Outcomes. Looking principally at growth would understate its institutional resilience; looking principally at institutional quality would understate the economic damage caused by electricity, logistics and state-capacity constraints. The framework therefore asks not simply what does the country have?, but what prevents it from turning what it has into sustainable Outcomes? India and Vietnam demonstrate the danger at the other end of the spectrum. Strong growth is important evidence, but it is not the end of the analysis. India's trajectory is broadly positive, yet sustaining it requires institutional capacity, infrastructure, human capital and private investment to keep pace with the economy's growth. Vietnam's strong Outcomes similarly coexist with questions around banking-system transparency, loss recognition and resolution. Outcomes are evidence; they are not conclusions. This sequence makes explicit distinctions that conventional country-risk work can compress: condition versus trajectory; capacity versus predictability; policy change versus institutional change; physical opportunity versus investability; and macro resilience versus creditor protection.

Second, the Rutter is explicitly about condition and trajectory — and the cases show that the two can diverge materially. Argentina is perhaps the clearest example. Current conditions have improved sharply and the reform wind is strong, but the longer-term trajectory depends on whether fiscal discipline, monetary credibility and openness become sufficiently embedded to survive political turnover and economic stress. The Rutter therefore prevents today's improvement from being automatically extrapolated into tomorrow's condition. Chile provides almost the opposite case. Recent growth, investment and fiscal Outcomes have been less impressive, yet the underlying institutional current — credible monetary policy, flexible exchange rates, strong supervision and comparatively effective public institutions — remains relatively strong. Weak weather does not necessarily imply a weak trajectory, just as good weather does not establish a strong one. Indonesia introduces a third possibility: condition can remain strong even as questions begin to emerge about the future trajectory. Its macroeconomic and banking Outcomes remain favourable, but a more state-led development model could alter capital allocation, contingent liabilities and the fiscal perimeter. The Rutter therefore encourages the investor to look for changes in the Enablers before they become visible in the Outcomes. South Africa shows the reverse transmission. Strong institutional currents have helped the country absorb repeated shocks, but they have not been sufficient to overcome weak conversion and produce adequate growth. If poor Outcomes persist long enough, however, they can eventually feed back into the Enablers through higher debt, weaker state capacity and institutional erosion. The relationship therefore runs in both directions.

Third, the cases show why the Rutter separates state capability from institutional predictability. Vietnam, Türkiye and Egypt all possess meaningful state or administrative capacity, but that does not imply the same risk environment for investors. Vietnam has demonstrated considerable capability in industrial policy, infrastructure and integration into global supply chains. Yet the creditor still needs to understand how financial losses will be recognised and allocated when stress occurs. Türkiye has substantial administrative and productive capacity and has demonstrated that policy can be changed rapidly; the unanswered question is whether today's monetary and fiscal normalisation will remain in place when the political and economic costs increase. Egypt has demonstrated an ability to stabilise the economy under pressure, but stabilisation does not itself establish that the role of the state, competitive neutrality, transparency or the governance of state enterprises and banks have changed. The distinction is important. A state may be very capable of doing things without being equally predictable about the rules under which investors operate. For a long-duration investor, predictability also means knowing whether contracts, security and creditor rights can be enforced in practice when conditions deteriorate, and whether recovery mechanisms remain effective when the state or a state-linked entity is involved. State capability and creditor protection are related, but they are not the same thing.

Fourth, the Rutter helps distinguish an event from what the event reveals. This is where the weather, winds and currents taxonomy becomes particularly useful. The 2024 Finance Bill protests in Kenya were clearly political weather. But treating them only as an event misses their analytical significance. They exposed a deeper constraint: fiscal consolidation depends not only on debt arithmetic but on the state's political legitimacy and its ability to raise revenue in a manner regarded as sufficiently fair and credible. The weather revealed something about the current. Similarly, a period of currency stability in Argentina or Türkiye may be important, but the Rutter asks what produced it and whether the underlying mechanism is durable. Conversely, weak growth in Chile or South Africa may look discouraging, but the investor needs to determine whether it reflects temporary conditions, persistent structural constraints or deterioration in the institutions that have historically provided resilience. The practical consequence is that the Rutter becomes a monitoring framework rather than a static country view. The useful output is a relatively small set of signals capable of changing the judgement. In Argentina, these include fiscal execution, reserve quality and evidence that policy survives political stress. In Kenya, revenue mobilisation and political consent matter alongside debt service. In Indonesia, the fiscal perimeter, SOE governance and directed lending become early indicators of whether the current is changing. In Vietnam, bank capital, property exposures, loss recognition and resolution matter more than another quarter of strong GDP growth. In South Africa, electricity, logistics and implementation tell us whether institutional capability is finally translating into better Outcomes. The monitoring indicators therefore differ because the mechanism being tested differs. That is a strength of the framework rather than a lack of standardisation.

Fifth and last, the nine cases reinforce the most important practical lesson from the exercise: country risk is ultimately a transmission problem. The investor's task is not to decide whether Argentina, Chile, India or Vietnam is simply a 'good' or 'bad' country. Nor is it enough to identify whether the weather is favourable or the current appears strong. The relative investment judgements across the cases make the same point more directly: the same country forces can produce different risk assessments for financial-institution debt and renewable project debt because the transmission channels, contractual protections and recovery mechanisms differ.

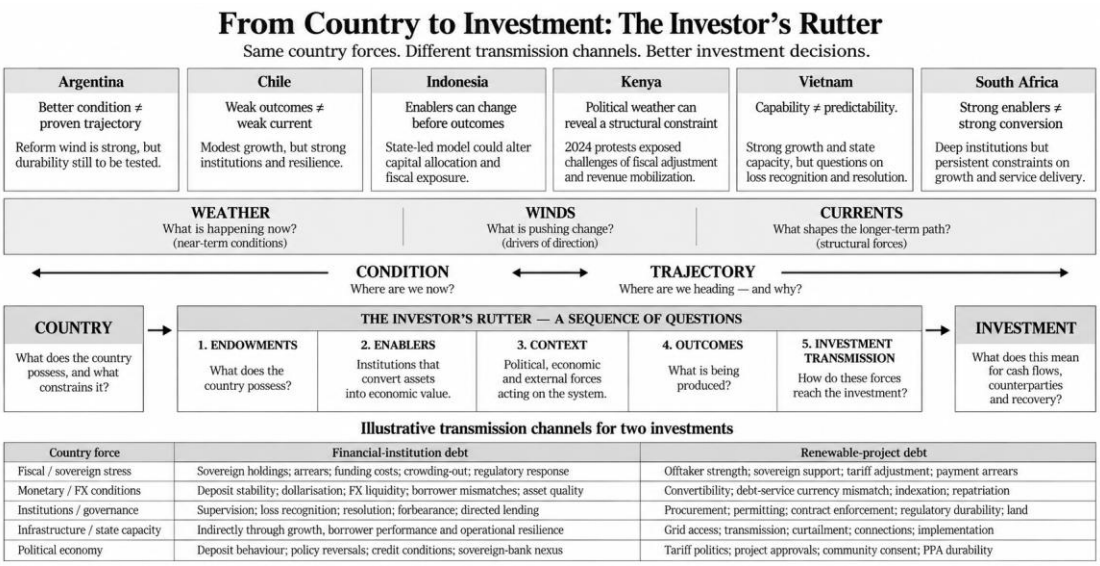
The task is to understand what is driving the country's condition, what is shaping its trajectory, and how those forces reach the particular investment. That means identifying which Endowments matter, whether the Enablers can convert them, what Context may strengthen or disrupt that process, whether the resulting Outcomes are sustainable, and finally which channels can impair cash flow, counterparties, contractual rights, collateral or recovery. The resulting investment judgement is therefore not a country score. It is a relative assessment of the risks that remain after the country forces have been transmitted through the particular investment structure.

The Rutter therefore does not eliminate judgement. It disciplines it. And, importantly, it tells the investor what to watch for evidence that the judgement should change.

6. Concluding Remarks

No single variable explains these nine countries. Strong Endowments can coexist with weak conversion, as South Africa demonstrates. Strong institutions can coexist with disappointing Outcomes, as in Chile. Strong growth can conceal financial or governance vulnerabilities, as Vietnam reminds us. And sharply improved conditions, as in Argentina, do not by themselves establish that the longer-term trajectory has changed.

This is why the distinction between condition and trajectory matters. The investor needs to understand not only where a country stands today, but what is driving it and whether those forces are durable. Weather can improve while the underlying current remains uncertain; difficult weather can obscure institutional resilience; and changes in the Enablers can signal a changing trajectory before that change appears in growth, inflation or other headline Outcomes.



Illustrative transmission channels for two investments

Country force	Financial-institution debt	Renewable-project debt
Fiscal / sovereign stress	Sovereign holdings; arrears; funding costs; crowding-out; regulatory response	Offtaker strength; sovereign support; tariff adjustment; payment arrears
Monetary / FX conditions	Deposit stability; dollarisation; FX liquidity; borrower mismatches; asset quality	Convertibility; debt-service currency mismatch; indexation; repatriation
Institutions / governance	Supervision; loss recognition; resolution; forbearance; directed lending	Procurement; permitting; contract enforcement; regulatory durability; land
Infrastructure / state capacity	Indirectly through growth, borrower performance and operational resilience	Grid access; transmission; curtailment; connections; implementation
Political economy	Deposit behaviour; policy reversals; credit conditions; sovereign-bank nexus	Tariff politics; project approvals; community consent; PPA durability

It is also why the Rutter is deliberately not another country score. A score necessarily compresses. The Rutter seeks to de-compress the judgement: what does the country possess; how effectively do its institutions convert those Endowments into economic value; what forces are acting on that process; what Outcomes are being produced; and are the underlying mechanisms strengthening or weakening?

But country analysis is still only part of the journey. The final question is how these forces reach the particular investment. Fiscal stress may reach a bank through sovereign exposure and a renewable project through its offtaker. Weak institutions may appear through bank forbearance, creditor treatment and recovery in one investment, and permitting, contractual enforcement or the effectiveness of an arbitration award in another. The resulting relative risk can therefore differ materially between two investments in the same country. The country may be the same; the investment risk is not.

The practical value of the Rutter therefore lies not in producing a mechanical country score, but in improving the investment judgement: identifying the transmission mechanism, assessing the enforceability of contractual and creditor protections, distinguishing condition from trajectory, specifying what matters for the investment and establishing the evidence that would cause the judgement to change.

The central lesson from the nine cases is straightforward: country risk is dynamic, institutional and investment-specific. The investor's task is not to know the future, but to judge it as best as can be before it arrives.