



SOVEREIGN ENGAGEMENT: A TECHNICAL GUIDE FOR RESPONSIBLE BOND INVESTORS

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Executive summary

Sovereign bonds represent nearly half of outstanding global debt securities¹ and underpin macro-financial stability. Bondholder engagement with sovereign issuers is essential for investors to fulfil their role as fiduciaries and for managing systemic risks, such as climate change, biodiversity loss, human rights violations and governance. Distinct from lobbying, engagement is a sustained, two-way dialogue, with the intention to provide constructive insights for both parties.

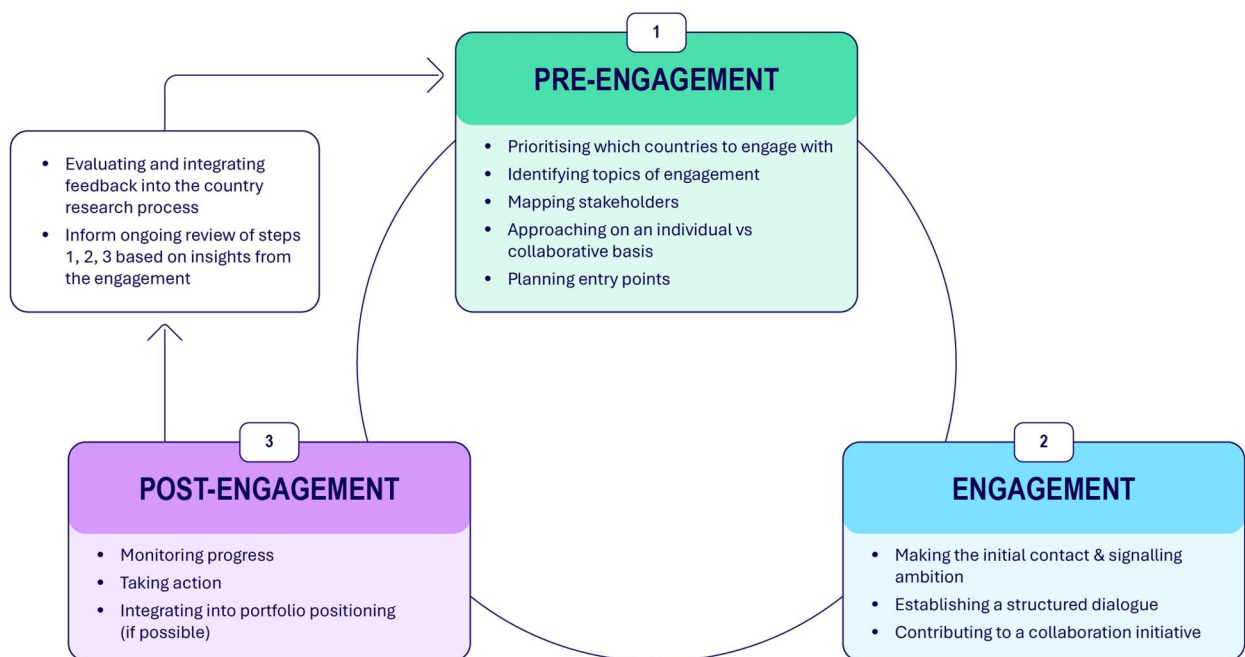
After introducing the importance of sovereign engagement, the report outlines a three-step process for bond investors:

1. Pre-engagement: investors prioritise countries using sustainability data, thematic risks and portfolio exposure, often combining quantitative tools/frameworks with qualitative external/proprietary assessments. They then define engagement topics and map relevant stakeholders – from debt management offices (DMOs) and

central banks to ministries and multilaterals – while planning suitable entry points, such as budget cycles, roadshows or international meetings.

- 2. Engagement:** engagement centres on long-term, politically neutral dialogue focused on understanding sovereign sustainability risks. Outreach typically begins with letters or introductory meetings, covering issues such as transition plans, governance reforms or labelled bond frameworks. Collaborative initiatives and domestic investor insights help align messaging and deepen access to key government institutions.
- 3. Post-engagement:** investors assess progress using qualitative insights and quantitative tools, looking for improvements in data, policy clarity or sustainability-linked issuance frameworks. If progress stalls or risks rise, they may reassess objectives or exposures, recognising that divestment is a last resort, given its limited effectiveness and potential unintended consequences.

Figure 1: sovereign engagement - a three-step process



¹ Bank of International Settlements (2025), [International finance through the lens of BIS statistics: bond markets, domestic and international](#)



The guide includes practical tips for investors on getting started, such as defining clear goals for engagement, the tools and resources needed, and identifying stakeholders and entry points. Engagement can be at the overall issuer level or specific to certain instruments, such as labelled bonds. The report also includes specific pointers for asset owners that delegate the management of their mandates to external managers: for example, making sure to ask for a clear engagement policy or requiring transparent reporting.

Engagement is useful for sovereign issuers to incorporate investor perspectives when considering and making decisions on the risks and opportunities relating to sustainability and governance. In turn, engagement enables investors to manage material risks,² support credible transition pathways, and contribute to sustainability goals. While there are challenges, structured approaches and collaboration are driving progress towards mainstream adoption.

About this report

This guide explores sustainability-related engagement in sovereign debt investing, current practices, challenges, and the role engagement can play in promoting responsible investment. It is designed for government bond investors at all stages of engagement, and who have different ambitions and resources. Overall, this report guides sovereign debt investors by:

- explaining what engagement means for the sovereign debt asset class, how it differs from lobbying and why it requires a unique approach;
- serving as a how-to guide for investors just getting started on where, when, with whom and on what to engage;
- providing a toolkit for both beginners and market leaders in sovereign engagement; and
- highlighting leading practices.

Investors in other asset classes, such as corporate bonds or listed equities, universal owners, and policy makers will also find this guide helpful to understand current practices.

The content is based on a detailed review of engagement practices and consultation with members of the PRI Sovereign Debt Advisory Committee, 22 interviews with sovereign debt investors, learnings from

the [PRI's Collaborative Sovereign Engagement on Climate Change](#), desk research and a review of existing grey and academic literature.

This guide updates the PRI's existing sustainability engagement guidance from 2020 for sovereign debt investors. It also expands on and complements existing PRI content relating to responsible investment in the sovereign debt and/or engagement space, such as our:

- [Considering climate change in sovereign debt \(2023\)](#); and
- findings from the PRI Collaborative Sovereign Engagement on Climate Change, such as the [2025 progress report](#), namely the learnings from the pilot engagement with Australia.

Links to other relevant PRI or external content feature throughout. A further reading list is provided at the end of the paper. All feedback is welcome – please contact the fixed income team at fi@unpri.org

² For example: ADB (2020), [Measuring the Effect of Environmental, Social, and Governance on Sovereign Funding Costs](#)



The importance of sovereign engagement

Key takeaways

- **Practices have evolved and, in some regions, have become more mainstream:** sovereign engagement practices have been broadening to include issues such as climate risk, energy transition, social resilience, and public governance, with increasing institutionalisation and mainstream adoption among responsible investors.
- **Sovereign engagement is distinct from lobbying:** it is defined as a sustained, two-way dialogue between investors and government entities, focused on managing material sustainability risks and supporting long-term resilience and outcomes.
- **The role of sovereign bond investors is unique and systemically important:** unlike typical corporate engagement, sovereign engagement addresses macro-financial stability and system-level outcomes, making it essential for aligning financial flows with various global climate and sustainability goals. It requires longer time horizons and presents fewer touch points. Sovereign and corporate engagement are complementary as they align outcomes at the company level with the macro and regulatory environment.
- **Challenges and benefits:** there are unique barriers and benefits for investment managers and asset owners that undertake engagement with sovereign issuers.

The evolution of sovereign engagement practices

Engagement between investors and sovereigns is not new, but its scope and purpose have evolved significantly over the last decade. Its scope has grown from focusing on traditional macroeconomic and fiscal policies to incorporating sustainability issues, such as climate-related risk, the energy transition, social resilience and public governance. This shift aligns with and reflects the development of global frameworks like the Paris Agreement.

“Active ownership doesn’t stop at corporates. Sovereign debt investors have a unique opportunity, and as PRI signatories a responsibility, to engage collaboratively with some of the largest issuers in debt markets. By bringing ESG into sovereign dialogue, we not only manage risk and opportunity at the country level but also uncover insights into systemic resilience that inform our entire portfolio.”

Marayka Ward, QIC

Historically, more emerging market debt investors used direct engagement to manage risk and identify opportunities. However, the practice is becoming more prevalent in developed markets as responsible investment practices have deepened across fixed income sub-asset classes. Interestingly, the approach to engagement is not necessarily different depending on whether the country is developed or developing.

Incorporating engagement into the investment process has accelerated, thanks to sovereign debt being included in frameworks such as Net Zero Asset Owner Alliance (NZAOA) and the Net Zero Investment Framework, leading asset owners to increase their expectations around sustainability (especially climate) for their sovereign portfolios. The emergence of dedicated sovereign sustainability and stewardship roles across investment managers further signals the institutionalisation of sovereign engagement.

Yet many investors still draw too heavily on equity-based models of engagement (built on shorter timelines, proxy votes, and frequent contact points), which are ill-suited to the political and institutional realities of sovereign debt. This underscores the need for clearer definitions and appropriate approaches tailored to sovereign contexts.

“Engagement with sovereign issuers by fixed income investors is not new. It has long included topics such as debt and fiscal governance, as well as key factors for attracting investments, such as rule of law, and strong institutions that protect property rights. In recent years, other sustainability-related topics have been added, such as climate change and human rights.”

My-Linh Ngo, RBC BlueBay Asset Management



What sovereign engagement is (and what it is not)

Sovereign engagement is an essential component of responsible investment, rooted in fiduciary duty. Through a sustained two-way dialogue, supporting transparency and information-sharing, sovereign bond investors can understand and manage system-level

risks while representing the investor voice to governments. The intention is to provide constructive insights for both parties. It must remain politically neutral, non-directive, and grounded in investor needs to understand systemic sustainability risks, such as climate. It facilitates informed dialogue so investors and sovereigns can better manage long-term risks.

Table 1: engagement compared to lobbying

Term	Characteristics
Engagement	A sustained, two-way dialogue focused on systemic risks relevant to the sovereign’s economy and an investor’s portfolio exposure. Wide in scope, long-term in focus, collaborative and informational.
Lobbying	Targeted, short-term, often transactional attempt to influence specific legislation or regulation, usually to lobbyists’ direct benefit.

The opportunity of engagement exists at different levels, as the engagement with sovereigns could be at the overall country/issuer level, or investors could engage around specific instruments, such as labelled bonds and their accompanying sustainability frameworks. Labelled debt offers an interesting engagement entry point and can be a way for issuers to signal good practice and thought leadership in sustainable finance. However, while labelled debt is a good starting point for engagement, over time it can evolve to apply beyond sustainable finance or include real economy policy.

“Not all contact or communication constitutes sovereign engagement. It is a sustained, ongoing process, where the investors need to be upfront about their intentions. It requires a long timescale (multi-year) and long-term relationship-building.”

Emma Whiteacre, formerly of Verisk Maplecroft

Why engage with sovereign issuers?

Sovereign bondholders occupy a unique position within the financial system. Sovereign debt represents roughly half (US\$75 trillion) of all outstanding global debt securities (US\$150trn)³ and serves as a benchmark for private capital markets and the pricing of corporate debt and loans.

Active ownership is at the heart of responsible investment principles, with the PRI’s Principle 2 stating, “We will be active owners and incorporate ESG issues into our ownership policies and practices”.

This applies to all asset classes. In the case of sovereign debt investors, engagement is a critical tool for bondholders to support governments in managing sustainability-related factors that can influence long-term economic stability and creditworthiness. This complements traditional credit risk analysis by directly addressing salient systemic risks that investors are exposed to. When gaps are identified that impact the sovereign’s ability to pay back its debt, the engagement process allows investors to feed back their

³ Bank of International Settlements (2025), [International finance through the lens of BIS statistics: bond markets, domestic and international](#)



expectations to governments as to how they can address certain investment risks.

Beyond investor benefits, engagement can help governments strengthen transparency, disclosure practices, credibility, and access capital markets while allowing investors to make their views heard relating to real economy policy. It informs issuers of investor priorities, supports the design of relevant policy settings, sustainable finance frameworks, and encourages innovation through instruments like green, sustainability-linked and climate transition bonds. As sovereign bonds underpin macro-financial stability and shape national climate pathways, engagement is indispensable for aligning financial flows with the Paris Agreement, other relevant global agreements and national commitments. Its systemic nature means benefits extend beyond sovereign debt holders, influencing corporate practices and broader market standards. In addition, investors can make their views heard relating to real economy policy.

In short, sovereign engagement is complementary to the systematic integration of sustainability-related factors, helping to manage risk, foster collaboration, and drive the transition to a sustainable global economy.

Sovereign engagement can also facilitate an efficient and mutually beneficial interaction between capital and policy to ensure both are effectively set up to address these challenges (Table 2).

“We have our own commitments on issues like climate, and dialoguing and engaging with sovereign issuers is part of our overall engagement efforts and of our commitment to fulfil clients’ mandates.”

Gaëlle Blanchard, Amundi

Table 2: benefits of sovereign engagement to investors and governments

Benefits	Investors	Government bond issuers
Facilitates two-way information exchange	<ul style="list-style-type: none"> Supports the evaluation of government sustainability strategy and the clarification of public policy Emphasises stakeholders’ partnership role Encourages better sustainability and governance-related disclosures and risk assessments Improves transparency; contributes to greater capital market efficiency 	<ul style="list-style-type: none"> Helps to understand growing investor appetite and leading practice among peers Allows to uncover how sustainability integration in bond valuations may affect demand and borrowing costs Develops a regular exchange to underpin new issuances and inform other relevant policy decisions Improves transparency, which contributes to greater capital market efficiency
Supports risk management	<ul style="list-style-type: none"> Clarifies sovereign performance on credit-relevant sustainability issues Signals and establishes dialogue on key material physical and/or transition-related, social or governance risk drivers 	<ul style="list-style-type: none"> Addresses investor misconceptions Potentially supports adoption of risk mitigating actions, enabling preservation of value Demonstrates good governance through openness to dialogue Preserves long-term international debt capital market access and financial flows
Creates opportunities	<ul style="list-style-type: none"> Builds long-term issuer relationships Meets growing sustainability-related demands and expectations from investors and their clients (e.g. for new labelled issuance) Signals and contributes to investments with positive real world outcomes, such as meeting politically agreed-upon net zero goals 	<ul style="list-style-type: none"> Strengthens long-term investor loyalty Harnesses market opinion and demand for new funding sources, from novel issuance instruments, such as labelled bonds, sustainability-linked instruments or climate transition bonds Optimises funding costs and debt sustainability Explores mechanisms to fund (and actions to meet) sustainability-related commitments, including increased transparency and accountability through sustainable bonds Issuance of labelled debt can be a useful engagement entry point and a way for sovereigns to signal good practice



“We believe that sustainability considerations will have an impact on sovereigns’ long-term economic growth and stability, therefore our reasons for engagement are closely tied to financial performance.”

Youngjin Kim, MUFG

“For us, engagement is not per se about influencing governments. Engagement lines need to resonate with our macroeconomic framework; it’s mainly a tool to improve our understanding, communicate to sovereigns what is important to us as investors, and encourage them to achieve their politically agreed-upon goals.”

Jesus Martinez, PGGM

“We see sovereign engagement as a positive feedback loop. We exercise our fiduciary duty but also share investor expectations with issuers, providing insights that countries can leverage to facilitate the influx of global capital.”

Sorin Pirău, CFA, Janus Henderson Investors

One size does not fit all

It is important to note that the selection of engagement topics and approaches, the prioritisation of countries to engage with and the goals of the engagement will depend on each investor. Therefore, the approach cannot be one-size-fits-all. For some investors, engagement supplements the integration of sustainability considerations into the portfolio management process, or they may seek to deliver specific sustainability outcomes. In addition, the topics of engagement are almost non-exhaustive for sovereigns. It is important for each investor to define the objectives and perimeters of their approach.

Comparing sovereign engagement with other asset classes

Engagement in sovereign debt markets differs fundamentally from corporate bonds or equities. Attempts to replicate corporate practices can fall short, which means investors need to ensure they have appropriate resources and processes in place for the asset class.

Table 3: differences in engaging with sovereign versus corporate issuers

Dimension	Sovereign issuers	Corporate issuers – corporate bonds and equities
Accountability and ownership	No ownership rights. Governments are ultimately responsible to the citizens and communities they represent. Bondholders cannot exert control through proxy or shareholder channels.	Equity investors hold ownership rights; voting and shareholder resolutions allow direct influence on governance.
Nature of the issuer	Many governments and other stakeholders are often driven by electoral mandates, geopolitics, and long-term national objectives.	Companies are commercial entities driven by profitability, shareholder expectations, and corporate strategy.
Investable universe	Limited number of issuers, high concentrations towards the largest issuers.	Extremely broad.



Dimension	Sovereign issuers	Corporate issuers – corporate bonds and equities
Engagement channels	Engagement routes are fragmented across multiple institutions: ministries of finance, debt management offices (DMOs), central banks, sector ministries, opposition parties, multilateral banks, NGOs and media (see Figure 4). Important role of syndicate desk and sell side banks in facilitating engagement.	Clear, structured engagement routes: investor relation teams, sustainability officers, sustainability committees, C-suite.
Time horizon for change	Longer-term, aligned with election cycles, multi-year budget frameworks, and political negotiation timelines without necessarily a measurable outcome.	Typically shorter (annual reporting cycles, quarterly corporate planning). Frequent earning calls and generally more frequent avenues for disseminating information to markets.
Reason for investment	Government bonds are typically more liquid assets with relatively low credit risk and high duration. Holdings in sovereign investments can be driven by different reasons, such as risk diversification, regulatory requirements, collateral needs, cash flow optimisation or liability hedging. Sustainability can be an add-on, and not always the prime objective.	Typically, the investor wishes to gain exposure to a specific issuer/return driver.

“There is a big difference in engagement between corporates and sovereigns. For corporates, there is a clear escalation process, reaching out to the Chief Financial Officer, the Chief Executive Officer, or the board of directors. For sovereigns, it’s not as straightforward.”

Scott McQuiston, CFA, Aberdeen Investments

“Sovereign engagement reinforces and complements our engagement with other actors across the financial system, helping us maximise the long-term value of our clients’ investments. That makes it a crucial part of our holistic approach to stewardship.”

Thomas Dillon, Aviva Investors

Engagement with sovereigns should be understood as complementary to engaging with corporates. Together, engagement across both governments and companies allows investors to take a whole-of-government and economy approach to sustainability. While corporate engagement focuses on firm-level transformation, sovereign engagement addresses the enabling policy and regulatory environment that shapes systemic risks and investment outcomes across the economy.

Practical challenges

Despite its growing importance, sovereign engagement remains complex and resource-intensive. Sovereign engagement is especially unique because of the concept of national sovereignty. Not only because a sovereign can have a publicly elected or otherwise representative government, but also because relevant global agreements and norms can evolve or lose sovereign support over time. Similarly, many of the material value protection drivers for engagement, such as fiscal risks from worsening climate change impacts, are complex, forward-facing and lack comparable and credible data.



Table 4: challenges of sovereign engagement

Challenge	Description
Political sensitivity and misinterpretation	Engagements risk being perceived as political interference, especially in sensitive contexts. Framing and tone are crucial.
Limited access and fragmented institutions	Identifying the right counterpart is difficult; governments may have limited capacity or willingness to engage on sustainability topics.
Lack of standardisation and data gaps	No formalised engagement framework; outcomes are hard to measure; sustainability data gaps complicate prioritisation and tracking.
Resource constraints	Engagement is long term and requires significant staff capacity and expertise.
Risk of misaligned expectations	Investors may approach engagement with unrealistic timelines or objectives, while governments may misinterpret investor interest as conditionality. Both sides must recognise engagement as a dialogue, not a transaction.
Impact measurement	Difficult to attribute impact to a specific investor action.

“Sovereign engagement is important as the analysis of risks is getting more complex, so understanding the adverse impacts of risks and how to manage them is important for investors. In addition, we are seeing a growing ambition from asset owners focused on driving positive outcomes.”

Kim Liu, APG AM

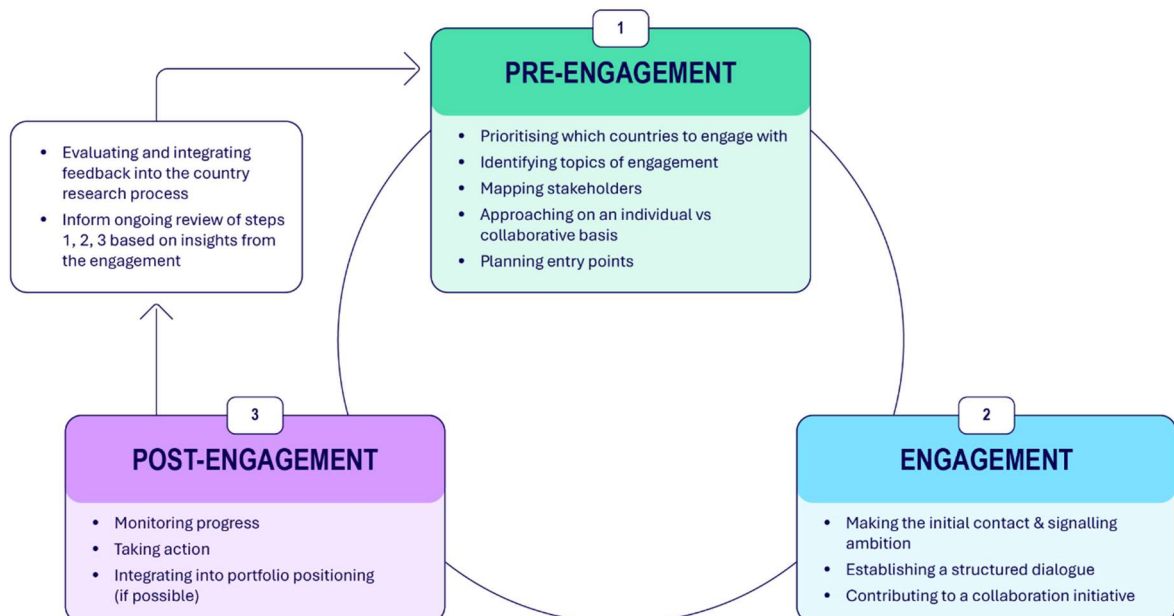
A three-step guide to sovereign engagement

Key takeaways

- **Engagement is an iterative, structured and long-term process:** practices often involve three main steps: pre-engagement (prioritising issuers and topics, stakeholder mapping), engagement (identifying the strategy and tone, ongoing dialogue, collaboration), and post-engagement (monitoring, evaluation, and action)
- **Preparation and stakeholder mapping are critical:** effective engagement starts with careful selection of target sovereigns, defining relevant sustainability topics, and mapping the right stakeholders and entry points for dialogue.
- **Collaboration amplifies impact:** investors increasingly use collaborative initiatives to streamline efforts, present varied perspectives of different capital providers more efficiently, and improve access to policy makers.
- **Monitoring and adaptation ensure effectiveness:** progress can be tracked using qualitative and quantitative tools, with strategies adapted as needed; action and escalation (such as portfolio adjustments) may be an option.

While investors lack the governance levers available in equity markets, they can exercise stewardship with sovereign issuers through a range of approaches.

Figure 1: an overview of the engagement process



The process typically starts with planning in the pre-engagement stage, including identifying the countries and topics to engage with, and identifying the relevant stakeholders.

The engagement itself can take different forms, which are detailed below.

In terms of post-engagement, the portfolio actions taken require a different approach compared to the equity space. Minimising tracking error and portfolio construction limits are typically more prevalent in sovereign debt portfolios and reduce the range of portfolio actions and changes available to investment managers compared to more diversified asset classes. Further, outright divestment can create unintended consequences: it can increase borrowing costs and encourage sovereigns to simply seek other funding sources.



Step 1: pre-engagement

The engagement process begins long before the first conversation. Preparation is critical to ensure that dialogue is purposeful, culturally sensitive, and aligned with investment objectives and sustainability priorities. It is important to involve the relevant investment teams at the outset when defining the engagement process. Pre-engagement typically includes three steps:

1. setting up a prioritisation process to identify focus markets

2. defining the engagement topics

3. mapping out relevant stakeholders and entry points of engagement

1. Setting up a prioritisation process to identify focus markets

Investors typically identify countries based on a combination of sustainability scores or data (internal or external), portfolio exposure, credit ratings, or thematic priorities, such as climate resilience or structural reforms. This selection can be proactive – driven by a specific issue where a sovereign is well-positioned for progress – or reactive, targeting countries that pose outsized risks.

Advanced practitioners often combine quantitative matrix/scoring with qualitative assessments. ASCOR (Assessing Sovereign Climate-related Opportunities and Risks) (see deep dive box below) or PCAF (Partnership for Carbon Accounting Financials) for example provide standardised frameworks for investors to assess countries in a comparable manner. Quantitative indicators can include emissions profiles, investor exposure, other sustainability-related scores, while qualitative considerations could include political and other sensitivities and investor interest in specific issues. Industry tools and frameworks are often complemented with proprietary models to inform the investment process and help identify priority markets for engagement.

“ASCOR brings together the information investors need to evaluate and engage with sovereigns on their climate transition journey with the academic rigor and methodological transparency of the TPI Centre at the London School of Economics. This combination enables informed dialogue and decision-making that grounds engagement with sovereign issuers.”

Adam Matthews, Church of England Pensions Board

When prioritising countries to engage, investors could consider whether the resources are justified i.e. how open the country is to engagement and the size of the country in the portfolio, the country’s exposure to specific sustainability considerations, and the complexity of its stakeholder map.

Investors can also check the availability of collaborative engagement initiatives covering specific countries.

“To prioritise focus markets for engagement, we look at the weighting of countries in our portfolios as well as the main sustainability risks and opportunities that they are exposed to (even currency exposure includes a fiduciary responsibility to engage). We also factor in the willingness of the country to engage and the likelihood of success.”

Reina Bertien, Brandywine Global

“Fixed income investors are increasingly integrating ESG considerations into sovereign bond valuation, and supplement this with collaborative sovereign engagements and tools like ASCOR that enable a consistent, transparent, and fair assessment of issuers. Through initiatives like the PRI Collaborative Sovereign Engagement on Climate Change, these efforts foster resilience, industry collaboration and long term value.”

Claudia Gollmeier, Colchester Global Investors



What is ASCOR?

ASCOR⁴ is a global framework designed by investors and investor networks to evaluate how sovereign issuers manage climate-related risks and opportunities.

The framework assesses sovereign debt-issuing countries against three pillars:

1. emission pathways
2. climate policy action
3. investor opportunities to finance the transition.

Why is ASCOR important?

Sovereign debt investors face significant challenges in comparing climate-related risks across jurisdictions due to inconsistent data and reporting standards. ASCOR addresses this gap by offering a publicly available data tool and an open-source methodology that evaluates countries on climate transparency and their progress towards their sustainability goals.

How do investors use ASCOR?

- **Prioritisation tool:** ASCOR helps investors identify which sovereigns to engage with by highlighting climate vulnerabilities and transition readiness.
- **Benchmarking:** it enables peer comparisons and supports effective dialogue with governments.
- **Integration into engagement:** ASCOR indicators often serve as a starting point for defining engagement topics, setting baselines, and tracking progress over time.
- **Collaboration:** ASCOR's standardised metrics reduce duplication and allow investors to align messaging in collaborative initiatives and in one-to-one meetings.

Why has it become a go-to resource?

ASCOR combines transparency, credibility, accessibility, and practical relevance. Its alignment with global climate goals and transparent methodology makes it widely accepted among investors seeking to integrate climate considerations into sovereign risk assessment and engagement strategies.

The underexplored power of the local investor

Investors in their domestic government bond markets can sometimes occupy a distinctive and influential position within the sovereign engagement landscape. Unlike overseas investors, local investors are embedded within the country's financial ecosystem, giving them greater visibility and credibility with policy makers and regulators. Their proximity allows them to understand the nuances of domestic policy priorities, fiscal dynamics, and socio-economic challenges in ways that external stakeholders often cannot. This familiarity enables local investors to tailor engagement strategies that resonate with national objectives while aligning with global standards of transparency, sustainability, and governance.

Moreover, local investors often have direct channels to participate in consultations, market dialogues, and policy forums organised by the sovereign or its agencies. These interactions, whether through debt management office briefings, central bank discussions, or public consultations on fiscal frameworks, create opportunities for constructive input on issues such as debt sustainability, ESG integration, and market development.

By leveraging their domestic presence and long-term investment horizon, local investors can advocate for reforms that strengthen market resilience and enhance disclosure practices. Their influence, rooted in both economic significance and local credibility, positions them as key partners in shaping a sovereign's approach to sustainable finance and responsible debt management.

⁴ ASCOR is a partnership between the ASCOR Investor Advisory Committee and the TPI Centre at the London School of Economics and Political Science. Find out more here: <https://www.ascor.org/>



2. Defining the engagement topics

Investors also need to determine the engagement topics/issues to address with sovereigns. This could be decided once the target sovereigns have been defined, or as a parallel, top-down process, taking into account which themes the investor wants to tackle from a system-level perspective. Topics range from fiscal transparency and anti-corruption measures to climate mitigation and adaptation and social spending.

As part of the research process investors can use tools, such as sustainability metrics, scenario analysis, and peer benchmarking to contextualise performance. Investors can also consider the relative stage of

development, capacity and capability within a market to identify focus topics for engagement or the ultimate starting point.

After initial analysis, the investor defines the key topics, the baseline, and the ‘asks’, tailored to the local context. For example, in some lower-income emerging markets, the focus might be on transparency and gradual progress, while in more advanced emerging economies and developed markets, the emphasis could be on consistency with global sustainability standards and how the country is responding to the most material risks and opportunities.

Table 5: examples of sustainability topics in sovereign engagement

Issue/theme	Description
Climate mitigation and adaptation	<ul style="list-style-type: none"> • Investors encourage/try to work with governments to reduce emissions, increase climate resilience and improve sovereign disclosure of relevant risks and opportunities. • Key focus areas include: <ul style="list-style-type: none"> – government policies supporting system-wide decarbonisation; – the credibility of transition plans (interim climate targets, sector-specific goals); – carbon pricing regimes and alignment with international standards; – National Adaptation Plans for resilience to physical climate risks (floods, droughts, extreme weather); and – government provision of macroeconomic and fiscal impacts from climate-related themes. • Leading practices include: <ul style="list-style-type: none"> – going beyond checking commitment to Nationally Determined Contributions (NDCs); – encouraging development of credible sovereign transition and investment plans; and – involving investment teams working alongside sustainability teams within investment management firms to link climate considerations with sovereign credit analysis.
Nature-related issues	<ul style="list-style-type: none"> • Increasing focus on deforestation, especially in high-risk countries. • Other topics include: <ul style="list-style-type: none"> – water resource management – land degradation – ecosystem conservation • Material impact on: <ul style="list-style-type: none"> – sovereign creditworthiness – sustainable development • Emerging theme: <ul style="list-style-type: none"> – nature-positive finance (halting biodiversity loss, restoring ecosystems)
Social issues	<ul style="list-style-type: none"> • Engagement areas: <ul style="list-style-type: none"> – social spending transparency – healthcare resilience – education investment – inequality reduction



Issue/theme	Description
	<ul style="list-style-type: none"> - gender inclusion - human capital - housing - human rights • Just transition: <ul style="list-style-type: none"> - ensuring climate and economic transitions are fair and inclusive - priority in markets where decarbonisation impacts employment
Governance-related issues	<ul style="list-style-type: none"> • Anti-corruption measures • Fiscal transparency • Institutional capacity-building • Transparency and data disclosure: <ul style="list-style-type: none"> - climate budget tagging for public spending - International Public Sector Accounting Standards Board (IPSASB) sustainability reporting standards - harmonised reporting for labelled debt (Refer to open data sources in the appendix)
Sustainable finance frameworks	<ul style="list-style-type: none"> • Design and credibility of frameworks for labelled debt (green, social, sustainability-linked bonds, transition bonds). • Key discussions: <ul style="list-style-type: none"> - Sustainability-Linked Bond Principles (SLP) and new, evolving instruments - robustness of KPIs (ambitious, measurable, aligned with global standards)

Please see the appendix for further resources and frameworks to support the choice of engagement topics.

Leading practice involves the sovereign investment teams and the sustainability teams working side by side to assess, identify and prioritise issuers and topics of engagement.

“The topics of engagement are defined on a case-by-case basis, and they evolve over time. We may start talking to a DMO about a specific sustainable or green bond framework, discussing use of proceeds. We can then build up discussing the issuer’s broader ambition on sustainability.”

Lisa Fillingame Abraham, Brown Advisory

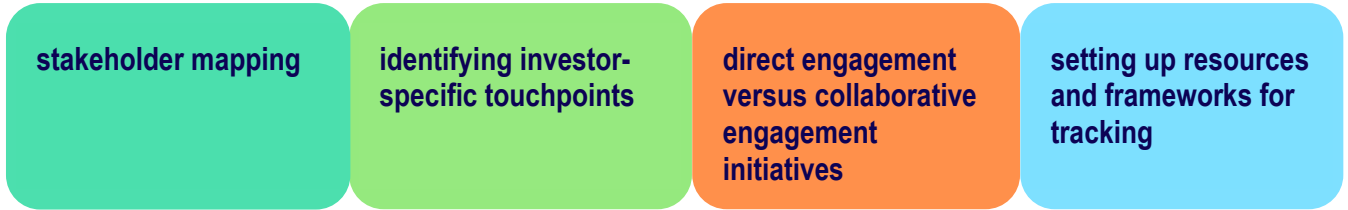
“Robeco is launching a new sovereign engagement program with a number of European governments within the Eurozone. The engagement will be informed by data from the Assessing Sovereign Climate-related Opportunities and Risks (ASCOR) platform, which assesses how countries are managing the low-carbon transition. The program builds upon our experience of sovereign engagement on deforestation in Brazil and Indonesia as well as on climate in Australia and Canada.”

Cristina Cedillo Torres, Robeco



3. Mapping out relevant stakeholders and entry points of engagement

When planning how to approach the engagement, investors can consider:

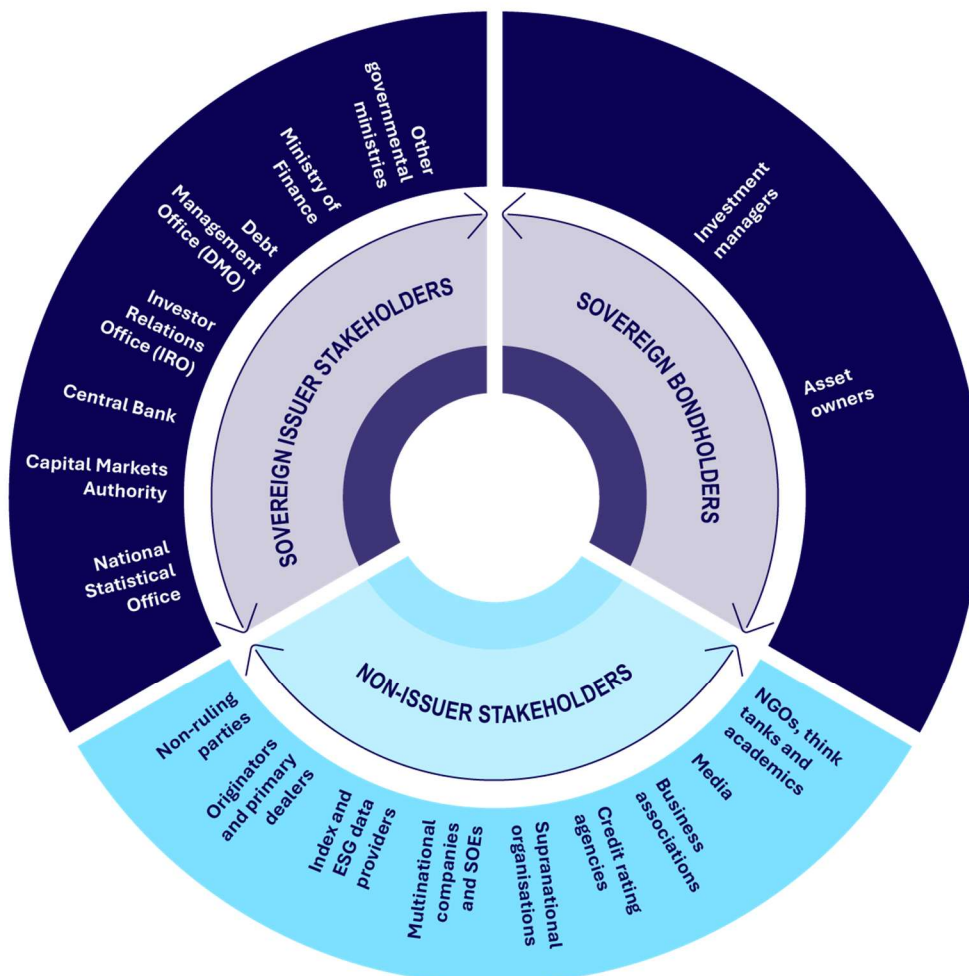


A 360-degree process

A key feature of sovereign debt engagement is the wide array of stakeholders to engage with, who can provide a well-rounded view. As a result, engagement is not bilateral (limited only to ruling institutions); it is a

multipronged, 360-degree process. Besides central government officials and independent public agencies, engagement can encompass interactions with non-issuer stakeholders, including originators and primary dealers, supranational organisations, sub-sovereigns, credit rating agencies (CRAs), domestic stakeholders and private organisations. See Figure 2 below.

Figure 2: sovereign engagement is a 360-degree process*



*Possible engagement stakeholders for illustrative purposes and not an exhaustive list.



Stakeholder mapping

Stakeholder mapping for a given country is key because effective engagement hinges on identifying the right interlocutors – typically ministries of finance, debt management offices, and central banks as a first port of call, combined with many other non-issuer stakeholders as highlighted in Figure 2 above.

Mapping includes factors such as the state structure and how much is decided at the federal versus sub-

sovereign level. A holder of the debt may be mainly interacting with the sovereign, but as part of the engagement programme it may be useful to also initiate contact points at the sub-sovereign or territory level.

Non-issuer engagement is equally important for informing the investment process. It can help investors get a holistic view of developments in a country and substantiate official information.

Table 6: non-issuer stakeholders and engagement themes

Non-issuer stakeholder	Examples of engagement themes
Non-ruling parties	Understanding the position of opposition parties may be valuable for anticipating potential power shifts; it could also help to identify ESG-related policies for which there could be bi- or multi-partisan support.
Originators and primary dealers	Investment bank capital market desks can advise sovereigns on sustainability issues that might be material to pricing and would increase the attractiveness of their bonds.
Index and ESG data providers	<ul style="list-style-type: none"> While ESG-weighted sovereign indices are becoming more popular,⁵ it is important that institutional investors engage with index providers to voice their views about country selections, especially asset owners, who tend to outsource the choice of the index that investment managers must track. Discussions with ESG information providers could serve to better understand their methodologies and product offerings, which are still relatively limited compared to what is available for corporates, and to provide feedback. Some also run formal consultations with users, similar to index providers. Independent opinion providers offer useful assessments of sovereigns' thematic bonds.
Multinational companies and state-owned enterprises (SOEs)	<ul style="list-style-type: none"> Since they operate in different jurisdictions, engaging with multinational corporates can provide valuable insight into a country's 'ease of doing business' (an important governance indicator), local practices and risk more broadly. SOEs – for example, national oil companies in commodity-exporting countries – can also be important to meet. Many of these companies impact fiscal deficits, either on the revenue side (in the case of an oil company) or on the expenditure side (e.g. if an electrical utility needs regular state support).
Supranational organisations⁶	<ul style="list-style-type: none"> Institutions such as the World Bank, the International Monetary Fund (IMF), the Organisation for Economic Co-operation and Development (OECD) and the European Commission can be a good source of ESG data and research. For example, in response to investor demand the World Bank launched the ESG Data Portal. Furthermore, although IMF loans are already meant to help member countries tackle balance of payments problems, stabilise their economies, and restore sustainable economic growth,⁷ investors can

⁵ See for example, [JP Morgan ESG index series](#), [FTSE Climate Risk-Adjusted Government Bond Index series](#), and [S&P's ESG Pan-Europe Developed Sovereign Bond Index](#)

⁶ Including multilateral lending institutions (MLIs)

⁷ See <https://www.imf.org/external/about/lending.htm>



Non-issuer stakeholder	Examples of engagement themes
	<p>encourage the IMF to complement its traditional crisis resolution role with more explicit ESG targets. Progress towards these should also be monitored more closely through the IMF’s regular multilateral surveillance work.⁸</p> <ul style="list-style-type: none"> Engaging on ESG topics with dedicated country analysts who have easier and more regular access to country officials can be very insightful, particularly in frontier markets. The influence of supranationals over sovereigns can stimulate greater transparency and more timely sovereign disclosures on material areas.
Credit Rating Agencies (CRAs)	<ul style="list-style-type: none"> The focus of CRAs on ESG topics has increased in recent years, partly thanks to the PRI’s ESG in Credit Risk and Ratings Initiative and closer regulatory scrutiny.⁹ Many have broadened their product offering and provide ESG evaluations/assessments, in addition to credit opinions. As a result, rated issuers (including sovereigns) are beginning to receive more questions related to their ESG policies. Investors can benefit from CRAs’ increased analytical and research capacity on ESG topics. They can also challenge CRAs if they think that ESG factors may not have been adequately captured by credit ratings.
Business associations	<p>Business and professional member associations, trade unions and Chambers of Commerce operate in specific sectors, with close links to companies, network events, and lobbying activities. They can provide an overview of industry developments, the business environment, social dialogue, and labour market practices.</p>
Media	<p>Press freedom is a widely used governance indicator. In developed democracies, where views, including about government policies, can be expressed freely, a lot can be learned from engagement with journalists, political commentators, and press bodies.</p>
NGOs, think tanks and academics	<p>Global, regional or local advocacy organisations can provide greater insight into local perspectives on ESG topics. For instance, Planet Tracker, a UK not-for-profit think tank highlighting financial risk related to ecological limits, runs a joint programme with the London School of Economics exploring the relationship between sovereign bonds, natural capital and environmental risks, and the sovereign health of a country and its key soft commodities.</p>

Identifying investor-specific touchpoints

The following events could be useful to initiate discussions around sustainability and governance-related topics:

Unveiling fiscal plans

- Annual budgets and medium-term fiscal plans often include sustainability reforms.
- Investor meetings allow discussion on sustainability disclosure, budget assumptions, and fiscal sustainability.
- Engagement opportunities also exist around central bank reports (inflation, financial stability).

⁸ The IMF’s country surveillance culminates in regular, comprehensive ‘Article IV’ consultations, where a team of economists visits a member country to assess its economic and financial developments and discuss its economic and financial policies with government and central bank officials. IMF staff missions also often meet with parliamentarians and representatives of business, labour unions, and civil society. For more detail, see IMF (2019) [Connecting the Dots Between Sustainable Finance and Financial Stability](#) and <https://www.imf.org/external/about/econsurv.htm>

⁹ European Securities and Markets Authority (2019) [ESMA advises on credit rating sustainability issues and sets disclosure requirements](#)



Roadshows

- Organised for new bond issues or thematic bonds (green, social, sustainability-linked).
- Useful for dialogue on sustainability and governance-related issues as issuers are prepared to address sustainability questions.

New labelled/sustainability-linked bond issuance

- Opportunity to zoom in specifically on sustainability-related topics.

Ad-hoc events

- Public conferences and development finance institution meetings (e.g. World Bank/IMF annual and spring meetings).
- Opportunities to raise sustainability-specific questions with government officials.

Country research trips

- Organised by investment managers or banks.
- Provide on-the-ground insights and meetings with diverse stakeholders.

Direct engagement versus collaborative engagement

While direct engagement is the default option, the market has seen more collaborative engagement initiatives. Examples include the PRI's Collaborative Sovereign Engagement on Climate Change (see the deep dive box), the Investor Policy Dialogue on Deforestation, and the Emerging Markets Investor Alliance.

“The majority of engagement is done on an individual basis but we find collaborative initiatives very helpful. The PRI Collaborative Sovereign Engagement on Climate Change works well because it has a secretariat that provides structure and governance, and it is highly effective to have local initiative members driving the calls and engagements on the ground in a specific country.”

Malika Takhtayeva, BNP Paribas Asset Management

“The Emerging Markets Investor Alliance has been an important partner in our sovereign engagements. They facilitate investor engagement on decarbonisation, governance reforms, and more recently, human capital and gender equity. The Alliance also develops practical guidance, such as transparency covenants in bond contracts and enhanced standards for labelled bonds, which we’ve found valuable in informing and supporting our engagement efforts.”

Kaan Nazli, Neuberger Berman

Resourcing

Internal resourcing is equally important: successful teams blend fixed income specialists with sustainability experts, regional analysts and stewardship teams. Often, this group involves a mix of fixed income and thematic sustainability-related practitioners who have local knowledge.

“We have no issue with justifying the internal resourcing on engagement, as it fits into our investment research process.”

Vlad Milev, Payden & Rygel

Tracking

Most advanced investors track their individual engagements, noting changes and commitments between the engaging investor and engaged companies/issuers.



Step 2: engagement

Initial contact: setting the tone

For a new engagement, the first interaction sets the tone for the entire process. It is crucial that the intention and ambition of the engagement are rooted in mutual benefits of addressing sustainability-related risks and opportunities. Investors must be conscious of political sensitivity and avoid the misconception of being mistaken for a lobbying effort. Transparency helps: some firms publish thematic engagement priorities/plans annually, signaling intent without naming specific sovereigns.

Engagement often begins in an ad-hoc manner before evolving into structured dialogues.

Initial outreach should be formal and transparent. Letters of intent can work but require cultural sensitivity. They can set the tone by outlining the fiduciary rationale for engagement, clarifying its purpose, emphasising neutrality and detailing the relevance of the market to the investor's portfolio. Including examples of how policy signals influence investment decisions adds credibility and demonstrates the practical relevance of dialogue.

For more complex issues, investors may work with multilateral organisations (e.g. the World Bank) or other stakeholders to build credibility and support.

These initial engagement touchpoints also clarify potential benefits for the sovereign, offering technical assistance and understanding of how markets perceive their risks and proactive on new issuances.

Collaborative engagement

Engaging collaboratively can help investors to overcome common engagement barriers (such as investor size, location, influence, identifying and contacting relevant stakeholders), streamline efforts and requests, and present a unified stance to signal issue importance, especially if the issue affects a large portion of sovereign debt holders. While there are fewer initiatives available to sovereign investors compared to equities, the number is growing. Existing initiatives include the PRI's Collaborative Sovereign Engagement on Climate Change, the Investor Policy Dialogue on Deforestation (IPDD), and the Emerging Markets Investor Alliance (EMIA), for example.

For collective engagement to be effective, it is crucial to consider the structure and division of responsibilities, and to include local and foreign investors as, together, there is deep institutional knowledge of a country, its protocols and risks. The most effective collective engagements to date exhibited a central secretariat

tasked with overseeing organisation and accountability. For investors, joining a collaborative initiative can be very effective, but they should be prepared to dedicate adequate time and resources.

“The investor base behind the Investor Policy Dialogue on Deforestation initiative (IPDD) is global in nature and spans asset classes. One of the factors that has contributed to the effectiveness of IPDD's efforts has been the participation of domestic investors, which has added local market insights and understanding, as well as enhanced stakeholder relations as they bring with them the credibility and trust they have with domestic policy makers.”

Graham Stock, RBC BlueBay Asset Management



The PRI Collaborative Sovereign Engagement on Climate Change

This multi-market initiative brings together global investors to engage with governments on climate-related risks and opportunities, currently supporting engagement programmes in Australia, Canada and Japan. Established in 2022 after a group of PRI signatories requested support to engage collaboratively with sovereigns on a sustained basis, [the initiative](#) has grown to over 40 participating investors, responsible for over US\$17trn in combined assets under management.

Through the initiative, investors are seeking to support sovereigns across four themes: aligning their emissions trajectory with the goals of the Paris Agreement where relevant; establishing credible transition plans; building greater climate adaptation and resilience; and improving climate risk disclosures.

Why it matters

Engaging collaboratively with governments offers a valuable opportunity for policy makers to gain insights into the views of global investors that can help inform policy design and decisions. This may include insights into how sovereigns are assessed based on climate-related factors and how these assessments may influence capital allocation decisions. Policy makers can also learn about the challenges investors are experiencing in allocating capital to transition and adaptation-related assets and how these challenges may impede support for governments' priority areas. Understanding investor perspectives on this topic can support governments to develop policies that more effectively crowd in private capital.

The collaborative nature of the initiative allows governments to hear a variety of perspectives from different organisations. This can support governments to identify areas of greatest value to prioritise if they wish to increase investor confidence in their market or if they seek to increase investor demand for upcoming issuances. For investors, collaboration increases the prospects of engagement access and government interest whilst also reducing resource intensity.

Factors of success

- **Clear governance:** the initiative has clearly defined roles and responsibilities, with designated lead investors, investor working groups and advisory committees.
- **Collaborative scale:** engaging collaboratively increases the efficiency of sovereign engagement efforts, which is more attractive to governments and helps gain greater access to policy makers.
- **Practical tools:** developing in-depth papers on topics such as investable NDCs and sovereign disclosure provides governments with actionable insights while respecting sovereignty.
- **Political neutrality:** engagement is apolitical, emphasising the underlying importance of relevant issues on economic resilience and risk management rather than prescriptive policy advocacy.

Key learnings for broader engagement

- Prioritisation matters: combining quantitative indicators (e.g. emissions profiles, ASCOR scores) with qualitative factors (political feasibility, investor interest) helps identify focus effectively.
- Transparency builds trust: clear disclosure on the goals and approach of the engagement initiative helps to build a long-term relationship with the sovereign.
- Integration into investment processes: engagement insights should feed into sovereign risk assessment and portfolio construction, ensuring they deliver tangible value for investors.
- Capacity and continuity: engagement requires dedicated resources and a long-term commitment to maintain dialogue across electoral cycles.
- Engagement is aided by investors communicating clear and actionable information, such as case studies, illustrative examples and quantified data, where competition provisions allow.

Pros and cons of collaborative engagement

- pooling of resources.
- increased access.
- learning.
- complementary role of domestic versus international investors.
- consistency of messaging versus areas where there is less consistency.
- less choice on coverage.



Step 3: post-engagement

While sovereign engagement can be more challenging than in other asset classes, leading practices are starting to emerge among investors as to how they monitor, evaluate progress and define escalation processes.

Tracking progress

Sovereign engagement is a long-term endeavour as shifts in relevant risk profiles and policy changes often take years to materialise. While directly attributing outcomes to engagement efforts is challenging, this should not discourage investors: each interaction can contribute to meaningful progress.

To track progress, investors typically conduct periodic reviews, often annually or semi-annually. These assessments combine qualitative insights with structured tools, such as ASCOR and in-house KPI frameworks, and are increasingly supported by quantitative approaches, like scenario-based models that estimate improvements in long-term risk and growth trajectories.

Monitoring is predominantly qualitative, relying on descriptive data and peer comparisons. Follow-up meetings assess a sovereign's responsiveness and progress on sustainability priorities. Insights from these evaluations feed into country research and can influence portfolio decisions, ensuring engagement outcomes are integrated into investment processes.

While transparent reporting strengthens trust and reinforces the legitimacy of sovereign engagement, it must be acknowledged that it is much more difficult than corporate engagement and potentially an area for future development.

“Sustainable bonds strengthen sovereign engagement by giving investors clearer visibility into how proceeds are used and how governments are advancing toward their sustainability-linked commitments.”

Samuel Mary, PIMCO

Portfolio action

When engagement does not progress as planned, investors typically revisit and adapt their approach before considering more assertive measures. Equity and corporate bond investors refer to ‘escalation when the engagement does not progress, whereas possible

actions in the sovereign space are less defined. However, several strategies are emerging:

Reassess and adapt

Investors often start by reviewing their initial strategy (step 1) and adjusting it to reflect changing political or economic conditions. This may involve:

- extending timelines to allow for gradual progress;
- refining engagement targets to make them more realistic;
- identifying alternative entry points or prioritising issues with higher likelihood of success; and
- building on early wins before returning to more sensitive but critical topics.

Leading investors recognise that achieving government-level change is complex, and incremental goals are often more effective than ambitious, immediate shifts.

Collaborative, direct or indirect action

Direct escalation is rare but possible. When initial efforts fail or receive no response, investors may:

- engage with development finance institutions or local think tanks to deepen contextual understanding and identify alternative channels;
- collaborate with other investors or NGOs to strengthen credibility and influence;
- send additional formal correspondence;
- approach formally higher-ranked decision-makers; and
- make public statements of support or concern.

Portfolio adjustments

When engagement does not progress and may affect the perception of risk related to sustainability and governance issues, rather than immediate divestment, investors may opt for gradual portfolio changes, such as:

- reducing exposure or capping allocations with clear communication on rationale to the issuer; and
- adjusting weightings based on updated sustainability assessments applying a ‘traffic light’ system where countries move between tiers of alignment over time.

Divestment as a last resort

Divestment is generally considered a last resort due to its potential to raise borrowing costs and hinder a sovereign's ability to finance sustainability initiatives, creating a negative feedback loop. In addition, this may be a limited option due to portfolio constraints and potential adverse consequences on the overall portfolio



profile. However, in cases of severe deterioration or major adverse events, divestment may become necessary.

“Divestment isn’t an option investors favour, as it’s equivalent to imposing financial sanctions, which have a pretty mixed track record in terms of achieving desired results. Engagement, on the other hand, is a way for investors to keep a dialogue going, and help sovereign issuers understand both the priorities that matter to investors, as well as the financial instruments available to support the energy transition, including (potentially) at lower cost.”

Matthew Graves, PPM America

Integration into portfolio process

It’s important to see the engagement process as a feedback loop, which then informs the investment process and the engagement strategy.



Dos and don'ts

This section provides practical steps to help investors get started with sovereign engagement. This includes learnings from practitioners who have set up successful processes.

Table 7: how to get started

Dos	What to do	Why it matters
Define clear goals	<ul style="list-style-type: none"> • Be explicit about why you are engaging: is it to understand sustainability and governance-related risks or to communicate investor preferences? • Link goals to fiduciary duty (ability and willingness to repay debt, asset valuation). • Keep expectations realistic; sovereigns move slowly. 	Clear, financially grounded goals ensure engagement is credible, avoids overreach, and supports constructive dialogue over confrontation.
Establish a baseline and peer comparison	<ul style="list-style-type: none"> • Use neutral, evidence-based framing, rely on existing data (ASCOR, CAT, World Bank, NDC Registry). • Avoid moral or value judgments; focus on material risks and long-term resilience. • Document country differences instead of expecting uniformity. 	A factual starting point enhances credibility and trust, helping investors avoid politicising their messages.
Define tools and resources needed	<ul style="list-style-type: none"> • Build internal sustainability–investment teams collaboration; pair sustainability specialists with portfolio managers. • Develop basic political economy literacy within the engagement team. • Be transparent internally about who engages and why. 	Integration of expertise ensures consistent messaging and avoids fragmented or siloed outreach.
Identify stakeholders and entry points	<ul style="list-style-type: none"> • Map who holds influence (central bank, specific ministries). • Leverage existing relationships (roadshows, IMF/WB consultations, investor policy dialogues). • Engage multilaterally when possible. • Participate in sustainable bond roadshows and related meetings. 	Targeting the right institutions and timing maximises receptivity and access while reducing duplication.
Start small and build momentum	<ul style="list-style-type: none"> • Choose feasible, low-friction issues (e.g. data transparency, budget reporting, green bond framework). • Be patient, progress may be slow or indirect. • Stay engaged even when political shifts occur; focus on continuity. 	Early wins build credibility and trust, showing governments that engagement is collaborative, not coercive.



Dos	What to do	Why it matters
Collaborate where useful	<ul style="list-style-type: none"> Join coalitions or working groups (such as PRI Collaborative Sovereign Engagement, IPDD, EMIA). Share findings and coordinate messaging to avoid fatigue for governments. Support standardisation efforts (IPSASB, TCFD alignment). 	Collaboration builds collective legitimacy, improves data consistency, and reduces the reporting burden for sovereigns.
Start domestic (where feasible)	<ul style="list-style-type: none"> In some instances, consider beginning with your home sovereign or familiar markets. Listen first, understand national priorities, constraints, and the political context before raising expectations. 	Domestic engagements offer easier access, lower reputational risk, and an opportunity to process before scaling globally.

Table 8: common pitfalls

What not to do	Why it matters
Don't design a one-size-fits-all framework	Sovereigns differ in governance, data quality, and fiscal realities. A rigid template can alienate stakeholders and ignore local political economy nuances.
Don't be discouraged by complexity	Policy engagement takes time, governments change, ministries rotate, and results may be indirect. Consistency builds legitimacy even without immediate outcomes.
Don't confuse engagement with lobbying	Engagement is a two-way exchange, not an attempt to dictate policy. Staying within fiduciary and analytical boundaries protects investor neutrality.
Don't overstate what counts as engagement	Be ambitious about what constitutes engagement: simply asking for a data point is more likely research rather than a two-way, sustained dialogue.
Don't assume access equals influence	Meetings or roadshows alone are unlikely to be sufficient. Trust and follow-up determine whether dialogue evolves into cooperation.
Don't overlook internal alignment	Mixed messaging between investment and sustainability teams undermines credibility. Presenting a unified institutional voice strengthens relationships.
Don't underestimate local sensitivities	Tone matters. Avoid a 'Western expert' stance or conditional language. Respect sovereignty and frame issues through mutual interest and shared risk.
Don't overwhelm governments with fragmented requests	Multiple investor questionnaires or frameworks create fatigue, especially in resource-constrained ministries. Coordination and standardisation improve engagement quality.
Don't expect immediate measurable impact	Sovereign change is systemic and political. Impact may be visible only in improved disclosure, dialogue, or incremental policy shifts over the longer term.
Don't default to divestment as a portfolio action	For sovereigns, exclusion is rarely effective or practical. Engagement should remain the primary accountability mechanism.



Table 9: dos and don'ts – for asset owners

Dos and don'ts	What to do	Why it matters
Define your own approach	<ul style="list-style-type: none"> Define how sovereign engagement supports your goals. If you have existing language around stewardship tailor it to incorporate sovereign bonds. 	By being clear on your own goals and expectations on how sovereign engagement contributes to it, you can communicate it more effectively to your managers.
Define your expectations from engagement	Based on your approach, define what are your expectations from your investment managers around engaging with sovereigns.	The investment managers' approach can then be measured against your specific expectations.
Request a clear engagement policy and strategy from your managers	Ensure managers have a documented approach including objectives, prioritisation criteria, and escalation pathways.	Ensures managers have a structured approach rather than ad hoc efforts.
Ask for integration into investment process	Engagement insights should feed into country research and influence portfolio decisions, not remain a standalone exercise. However, ensure you understand unintended consequences from portfolio constraints.	Engagement should influence risk assessment and portfolio decisions, not sit in isolation. Portfolio constraints around tracking error, issuer limits and concentrations may influence degree of possible integration.
Require transparent reporting	Expect regular updates from the investment manager on engagement activities, progress against defined objective(s), any changes in risk assessment or portfolio positioning.	Regular updates allow you to track progress and hold managers accountable.
Encourage collaboration	Participation in investor or industry initiatives (e.g. ASCOR, PRI collaborative initiative) can amplify influence, share leading practice and improve markets standards.	Collective action can drive meaningful change and better market practices.
Don't overlook resource allocation	Engagement requires dedicated expertise. Ensure managers have the capacity and skills to engage meaningfully with sovereign issuers.	Appropriate focus on sovereign engagement should be encouraged in the industry.
Don't assume engagement equals impact	Ask for evidence of progress tracking and integration into investment decisions – engagement without follow-through is ineffective.	Progress must be measured and linked to investment decisions to be meaningful.
Don't ignore the specificity of the asset class	Don't expect to see the same frameworks, channels of impact and speed of change as stewardship in other asset classes.	Practices are developing and sovereign engagement will move in at a slower pace to other asset classes.



Conclusion

Sovereign engagement is a cornerstone of responsible fixed income investing. Ignoring this asset class means overlooking one of the most powerful levers for understanding and managing system-level risks while representing the investor voice to sovereign bond issuers.

While engaging with this market segment can be more challenging than with companies, we have outlined emerging leading practices.

So, start small, but start now. Begin with familiar markets (where feasible), define clear objectives, and integrate engagement insights into your investment process.

Join collaborative initiatives to amplify impact and share leading practices. By embracing sovereign engagement today, investors can help shape a stable, inclusive, and sustainable global economy for tomorrow.

Investors have a unique role to play. Engagement with sovereign issuers complements corporate-level stewardship by addressing the policy and fiscal frameworks that shape entire economies. Together, these efforts create a holistic approach to sustainability, where company-level change is reinforced by sovereign-level progress on climate, governance, and social resilience.

Looking ahead, sovereign engagement will continue to evolve. Collaborative initiatives, standardised tools like ASCOR, and growing demand for transparency will make engagement more structured and impactful. As sustainability challenges intensify, investors have an opportunity – and a responsibility – to use engagement as a tool for both fiduciary resilience and real world progress.



Appendix: further resources

Data/frameworks

Source	Explanation
ASCOR – Assessing Sovereign Climate-related Opportunities and Risks	Practical tool helps investors understand sovereign exposure to climate risk and governments’ transition plans.
PCAF - Partnership for Carbon Accounting Financials	Standardised framework used by investors to measure and disclose the greenhouse gas (GHG) emissions associated with their sovereign bond holdings.
World Bank Sovereign ESG portal	Online platform providing sustainability-related data for countries.
NDC Registry	Database maintained by the UNFCCC that records countries' formal climate action plans under the Paris Agreement.
Finance for Biodiversity Foundation: Sovereign Debt Nature Assessment Model	Guidance for integrating nature-related risks and opportunities into sovereign debt analysis, pricing, and policy engagement (under consultation).
Climate Action Tracker	Tracks countries’ climate targets and policies.
Inevitable Policy Response	Forms policy expectations across countries. The Quarterly Forecast Tracker provides investors with a comprehensive and timely assessment on relevance, credibility and impact of key climate developments against the IPR Forecast Policy Scenario and the 1.5°C Required Policy Scenario.
NGFS climate scenarios	The Network for Greening the Financial System (NGFS), which comprises central banks and financial supervisors, has created scenarios for physical and transition risk.
Net Zero Asset Owner Alliance (NZAOA)	Guidance used by asset owners for their engagement practices with policy makers.
Net Zero Investment Framework	Used by investors to set targets and produce related net zero strategies and transition plans.

Collaborative engagements

Source	Explanation
PRI Collaborative Sovereign Engagement on Climate Change	This initiative enables investors to support governments to act on climate change and better manage portfolio risks and opportunities. Current markets of engagement are Australia, Canada and Japan.
Investor Policy Dialogue on Deforestation (IPDD)	An investor-led engagement initiative that aims to halt deforestation in the most vulnerable biomes of the world.
The Emerging Markets Investor Alliance (EMIA)	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.



PRI further resources:

- PRI (2023), [Considering climate change in sovereign debt](#)
- PRI (2022), [Human rights in sovereign debt: the role of investors](#)
- PRI (2025), [Guide to collaborative initiatives](#)

Other resources:

- Climate Bonds (2025), [Sovereign Transition: Unlocking the Investment Opportunity](#)
- IMF (2025), [Do ESG Considerations Matter for Emerging Market Sovereign Spreads? in: IMF Working Papers Volume 2025 Issue 073](#)
- International Journal of Current Science Research and Review (2023), [The Impact of ESG Implementation on the Sovereign Bond Yield Spreads: An Empirical Analysis of ASEAN Countries](#)
- ADB (2020), [Measuring the Effect of Environmental, Social, and Governance on Sovereign Funding Costs](#)
- Capelle-Blancard et al. (2018), [Sovereign bond yield spreads and sustainability: An empirical analysis of OECD countries](#)



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