Colchester®
GLOBAL INVESTORS

ESG Engagement Report

June 2026

Introduction

In our previous engagement report, we noted the continued importance of credible near-term transition planning, the role of fiscal frameworks in supporting sovereign climate strategies, and the outcomes of COP30 in Belém. The first half of 2026 has brought a more immediate challenge to the foreground: the escalation of conflict in the Middle East, which disrupted supply from one of the world's most critical energy corridors and triggered a reassessment of dependency risks. The resulting price shock has reinforced that the transition to cleaner energy is not only an environmental issue, but an increasingly pressing economic and fiscal one.

Against this backdrop, the link between energy security and climate transition has moved more firmly into sovereign ESG assessment. The crisis has shown how exposed many economies remain to hydrocarbon imports and how limited near-term alternatives still are. While technologies such as low-emissions hydrogen continue to attract investment and may strengthen long-term resilience, they remain some way from providing a scalable response to current supply pressures. As highlighted previously, defence, energy, and climate investment are all competing for limited fiscal resources, and the geopolitical backdrop has sharpened those trade-offs.

Progress in sovereign sustainable finance continued, albeit unevenly, alongside significant public sector issuance. Several major sovereign issuers are scaling up to record or near-record volumes in 2026. The European Commission confirmed plans to issue up to €180 billion in EU-Bonds this year, following €160 billion in 2025, €140 billion in 2024, and €120 billion in 2023, when the EU moved to its unified funding programme. These funds will support NextGenerationEU, Security Action for Europe (SAFE), Ukraine support, and social policies. The Organisation for Economic Co-operation and Development (OECD)'s Global Debt Report 2026[1] notes that the EU bond and bill stock is expected to reach EUR 1 trillion by end-2026, underscoring how sovereign capital markets are increasingly being called upon to finance climate, social, and security priorities. Separately, Europe's sustainable finance framework continues to evolve, with the Commission's proposed overhaul of Sustainable Finance Disclosure Regulation (SFDR) introducing a dedicated transition category to direct capital toward decarbonising companies and projects rather than only those already green, a shift relevant for many Asian markets still grappling with transition finance.

The Assessing Sovereign Climate-related Opportunities and Risks ("ASCOR") framework continued to underpin our engagement work during this period, providing a consistent basis for assessing sovereign transition readiness across markets. Colchester serves as Co-Chair of ASCOR and sits on the PRI's Global Sovereign Collaborative Engagement Advisory Committee, reflecting the framework's growing role as a practical tool for sovereign investor dialogue. We are also pleased to report continued progress in our collaborative engagement programmes with the PRI in Australia, Canada, and Japan, where ASCOR indicators are increasingly informing dialogue with sovereign authorities.

Our engagements in the first half of 2026 covered both sovereign issuers and industry-level initiatives. Highlights in this report include:

- Country engagements with the UK and Spain (developed markets), Romania and Thailand (emerging markets), and Saudi Arabia and Oman (frontier markets)
- Observations on sovereign climate strategy and energy security developments following the Middle East conflict
- Assessment of sovereign green and sustainability-linked bond market developments, including engagement with the EU Green Bond Standard
- Updates on our ongoing participation in collaborative industry initiatives, including ASCOR-related work and input into the ongoing ASCOR 2.0 methodology consultation.

[1] OECD (2026), Global Debt Report 2026: Sustaining Debt Market Resilience Under Growing Pressure, OECD Publishing, Paris, https://doi.org/10.1787/e9d80efd-en

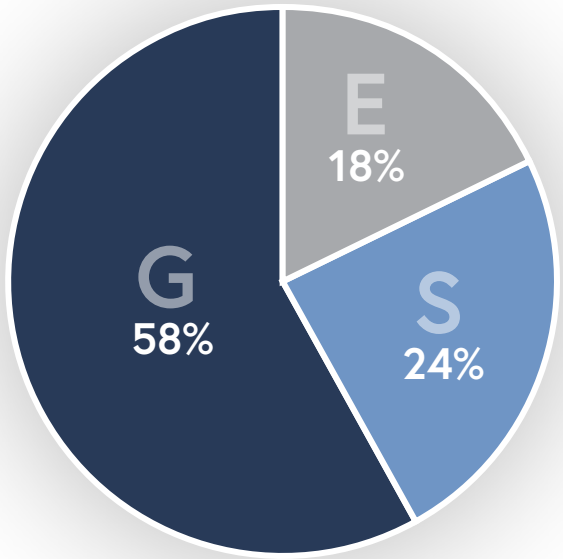
Summary of Engagements: H1 2026[2]

93 Engagements with 59 different entities

53% of engagements with Government Officials

36% of engagements are Industry-level collaborations

12% of engagements are with non-Issuer Stakeholders



[2] Period ending 30 June 2026

Engagements

Energy Security and the Green Transition

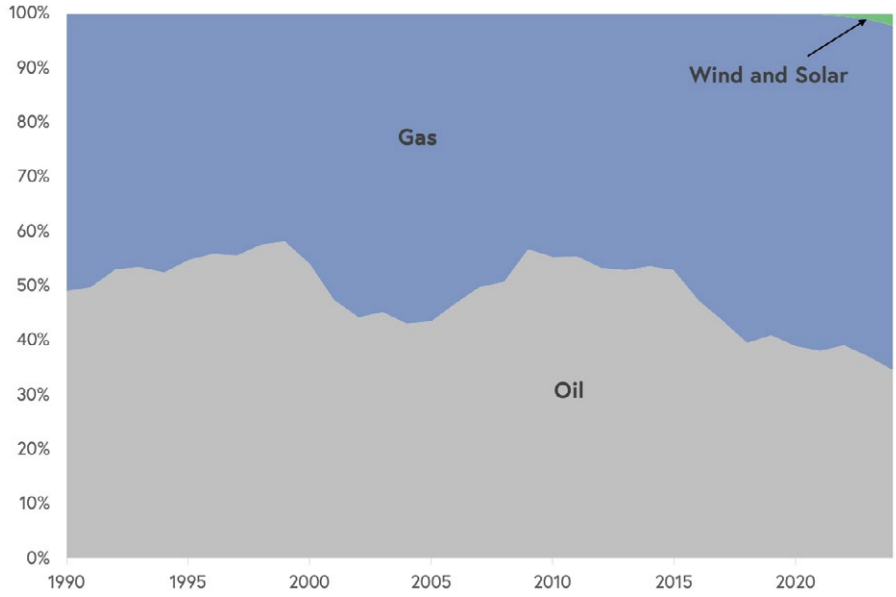
The Middle East conflict provides a useful backdrop for considering our engagements with Saudi Arabia, Thailand, and Oman. Each faces the shared challenge of advancing the energy transition while managing energy security pressures, but from different starting points. Thailand, as an importer, is absorbing the fiscal cost of heavy oil dependence and related household support. Saudi Arabia, as a major producer, is focused on renewable deployment, grid investment, and the credibility of its 2030 targets. Oman sits between the two, with transition progress still closely tied to institutional reform through Energy Development Oman. Together, these engagements show how energy security and climate transition are now difficult to separate in sovereign ESG assessment.

Saudi Arabia

At the start of February 2026, prior to the conflict in the Gulf region, Colchester visited Saudi Arabia and met with the Saudi Electricity Company (SEC) to discuss the country's green transition plans. SEC, a majority state-owned, publicly listed utility, will play a central role in this transition, as electricity generation remains the largest contributor to CO_2 emissions in the country. The company itself has a net zero emissions target of 2050.

By way of background, the cornerstone of Saudi Arabia's energy policy is Vision 2030, which aims to reduce the country's overall reliance on hydrocarbons. In the power sector, the government targets generating 50% of electricity from renewables by 2030 and eliminating oil-fired power generation entirely. This represents a significant ambition: as of end-2023, oil and gas accounted for over 99% of electricity generation. Although the share of oil-fired generation has declined from over 50% in 2015 to around 35% by end-2025 as shown in Chart 1, reducing this to zero by 2030 remains challenging.

Chart 1: Electricity Production by Source in Saudi Arabia



Source: Our World in Data. Data from 1990-2024

To accelerate renewable deployment, the government has introduced reforms to attract private investment. These include low-cost land provision, long-term power purchase agreements (typically 20–25 years) signed by the Saudi Power Procurement Company to provide revenue certainty, and reduced fossil fuel subsidies, improving the competitiveness of renewables. SEC is also responsible for grid connections, funding the majority of associated costs, further lowering barriers for developers.

Grid expansion will be critical to enabling rapid renewable integration. SEC has committed to invest USD59 billion between 2025 and 2030 to strengthen transmission and distribution networks. This includes investment in battery storage, which will be key to scaling solar power by allowing energy generated during the day to be used at night. Saudi Arabia is particularly well-positioned for solar generation, with Riyadh receiving over 3,200 hours of sunshine annually. As a result, solar project bid tariffs are among the lowest globally. SEC emphasised that, while the transition will be rapid, maintaining grid stability is a priority. Lessons from parts of Europe, where rapid renewable expansion at times challenged grid reliability, are informing a more measured approach.

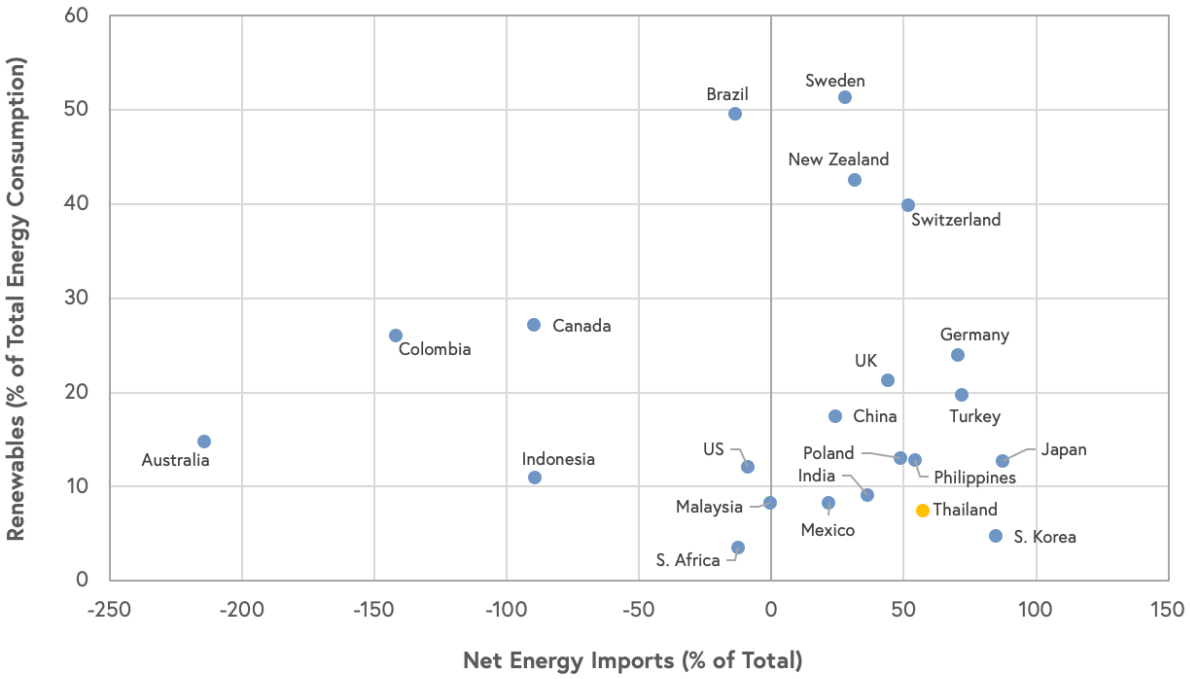
While the 2030 targets remain challenging, given the economy's high energy intensity and continued reliance on fossil fuels, there has been a clear positive shift in the authorities' approach to transition risk, supported by tangible policy and investment commitments. Further strengthening of climate legislation would be beneficial, particularly given weaknesses highlighted in the ASCOR climate policy pillar. Overall, we do not see sufficient grounds to change the sovereign's Financial Stability Score at this stage.

Thailand

Colchester met with officials and other stakeholders in Bangkok in May 2026, against the backdrop of an energy shock driven by the conflict in the Middle East. Thailand entered this period with significant exposure to energy imports from the Gulf region, accounting for close to 60% of its oil supply, alongside relatively high net energy imports of around 7% of GDP in 2024. In response, coal-fired power plants, which have generated around 20% of electricity over the past two decades, were ramped up to near-full capacity, in line with broader regional trends. Chart 2 highlights Thailand's position as a net energy importer,

combined with a relatively low share of renewables in the wider energy mix, which increases its exposure to energy shocks. Whilst this places Thailand broadly in line with several regional peers, such as the Philippines and South Korea, it underscores the importance of accelerating the green transition as discussed below, alongside maintaining strong balance sheet resilience.

Chart 2: Energy Security



Source: World Bank, Our World in Data. Data latest available December 2025.

Leading into this shock, Thailand was already relatively vulnerable to climate change, given its coastal geography and tropical climate. Recognising this, the authorities have had a net zero emissions (NZE) target since 2022, initially set for 2065 and subsequently brought forward to 2050 in late 2025. Against this backdrop, Colchester sought to better understand how the authorities plan to balance these competing pressures, including the implications for the sovereign balance sheet and the funding of any fiscal support measures.

As part of their transition efforts, Thailand issued its inaugural Sustainability-linked Bond (SLB) in late 2024. The THB 30bn bond links its coupon to two 2030 targets: a 30% reduction in greenhouse gas (GHG) emissions and 30% EV adoption in new vehicle sales. Ahead of the launch, Colchester met with officials to discuss the use of proceeds, associated targets, and the potential for more traditional green bond issuance, although at the time they expressed a preference for the flexibility of the SLB structure.

In the latest meetings, the 2026 energy shock was central to discussions, particularly the planned THB 400bn (c. 2% of GDP) "Thais Help Thais Plus" fiscal support package. This was an existing cost-of-living package originally budgeted at THB 175bn (c. 0.9% of GDP), but it was expanded to THB 400bn in May 2026 to enable a stronger response to the energy shock. It includes both near-term household support (such as electricity tariff caps) and longer-term transition measures, including EV subsidies. Disbursement is split, with the first half to be paid in 2026 for immediate relief while a second, EV-focused tranche will follow and is likely to require additional borrowing. While no final decision has been made, the authorities are considering further SLB issuance or a potential inaugural THB-denominated sovereign green bond to support any additional funding requirement.

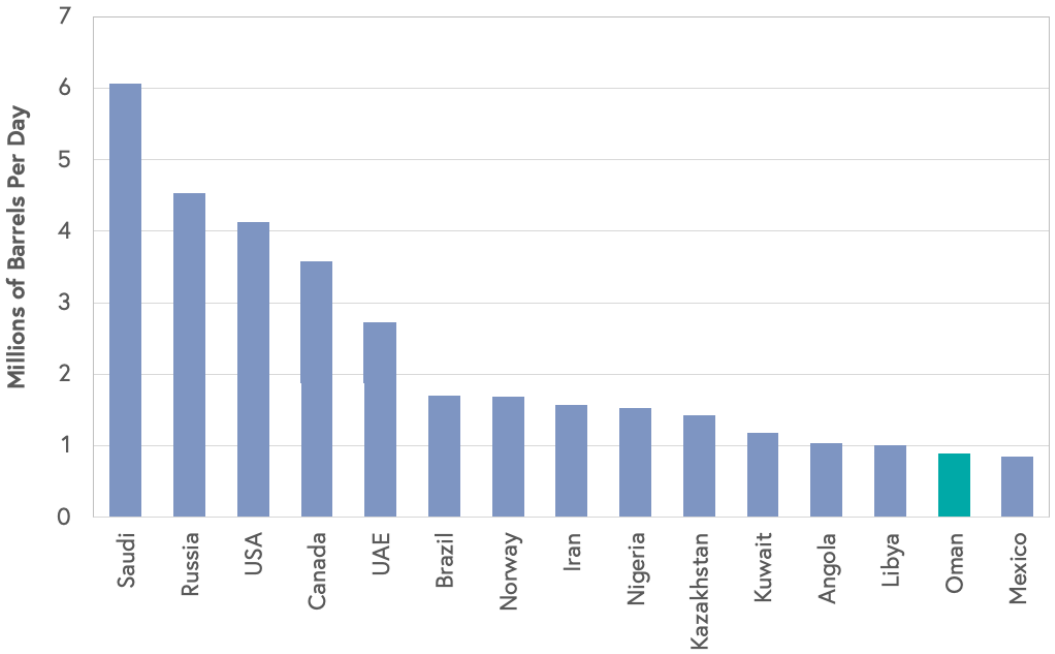
Discussions highlighted the trade-off between near-term energy security and the need to support households amid elevated energy costs and second-round inflation effects, versus longer-term transition objectives, all while maintaining a prudent balance sheet. We also note that strengthening the policy framework, as highlighted by the ASCOR assessment, would further support credibility with investors. While the policy direction remains supportive of the transition, recent measures underscore implementation risks, which we will continue to monitor. At this stage, however, there is no change to Thailand's Financial Stability Scores.

Oman

Given historically weaker governance over Oman's hydrocarbon assets, Colchester engaged with Energy Development Oman (EDO) to assess whether recent institutional reforms are translating into improved governance and to better understand its evolving role in balancing resource management with sustainability objectives.

EDO was established by royal decree in 2020 as a state-owned holding company, wholly owned by the Ministry of Finance, to consolidate and professionalise the management of the country's oil and gas assets. The reform reflects a shift from direct government oversight towards a more commercial structure, with the aim of separating fiscal ownership from operational decision-making, improving capital discipline, and enabling faster, more market-oriented responses. The sector remains central to the economy, accounting for approximately 70% of government revenues, 35% of GDP, and 75% of exports (Chart 3).

Chart 3: Largest Oil Exporting Countries



Source: World Population Review. Data from 2024

As part of this restructuring, EDO holds a 60% stake in Petroleum Development Oman (PDO), the country's primary upstream operator, with the remaining 40% owned by Shell, Total, and Thailand's PTTEP. While international partners continue to provide technical and operational expertise, responsibility for managing the state's interest has shifted from the Ministry of Finance to EDO. This change is intended to strengthen governance by centralising oversight within a dedicated, commercially oriented entity, while maintaining private sector involvement where specialist expertise is required. EDO also has a broader mandate to develop new oil and gas concessions in partnership with international and domestic stakeholders.

On governance, EDO highlighted that operating with its own balance sheet enables faster capital deployment and more efficient access to funding than would be possible through direct government channels. This structure also provides greater operational flexibility in responding to changing market conditions. A recent example is in gas production: as two major gas fields, developed over the past decade, came online in recent years, EDO adjusted output to manage constrained LNG export capacity. Production was curtailed to maintain market balance, while parallel efforts were advanced to expand liquefaction capacity at key export terminals.

Beyond hydrocarbons, EDO is pursuing renewable energy development, with a particular focus on building a green hydrogen industry. Oman's favourable solar and wind resources position it well for this transition. The strategy involves using renewable electricity and desalinated seawater to power electrolysers for hydrogen and ammonia production. To support this, EDO established Hydrogen Oman (Hydrom). Rather than directly subsidising projects, EDO sees its role as an "orchestrator", facilitating industry development by coordinating stakeholders and enabling collaboration. Hydrom is currently acting as the government's agent in the auction of a third land parcel for green hydrogen development, encouraging coordination among prospective bidders.

These initiatives sit within Oman's broader Vision 2040 framework, which targets 30% of electricity generation from renewable sources by 2030 and 8.5 million tonnes of green hydrogen production by 2050, a level that would exceed current European hydrogen demand.

While EDO has contributed to strengthening governance and management of Oman's hydrocarbon sector, progress on green energy appears more limited. ASCOR data indicates that CO_2 emissions continue to rise, highlighting the scale of the transition required to meet the 2030 targets. Nonetheless, we view the establishment of EDO and the separation of commercial and fiscal functions from the Ministry of Finance as a positive governance development. We therefore made no change to Oman's Financial Stability Score following this engagement.

Climate Adaptation and Sovereign Fiscal Risk

Our engagement with the UK focused on the growing fiscal implications of climate adaptation. The latest assessment from the Climate Change Committee highlights the scale of future investment needs and the potential impact on the public balance sheet.

United Kingdom

Under the Climate Change Act 2008, the UK Government must assess the risks of climate change to the UK every five years. The Climate Change Committee (CCC), the independent statutory body established by the Act, provides the evidence and independent advice that inform this assessment. Titled A Well-Adapted UK, the Fourth Independent Assessment of UK Climate Risk (CCRA4-IA), published in May 2026, fulfils that statutory obligation. The report quantifies the investment the UK needs to adapt to climate change under a 2°C warming scenario by 2050. While the UK's greenhouse gas emissions have fallen by 42%[3] since 2008, progress in adapting the UK for the changing climate has fallen short of what was hoped for.

For the first time, the CCC has moved beyond its role of risk identification to provide advice on solutions with clear set of adaptation actions, reliable costs for those actions and a methodology to attribute spending between public and private sectors. The largest investment requirements are concentrated in cooling, flood protection, and water management. Total adaptation investment is estimated at £11bn per annum (range £7–22bn), equivalent to c.0.4% of GDP through to 2050.

[3] Latest Greenhouse Gas Emissions database for Global Atmospheric Research (EDGAR) 2008 to 2024.

Colchester engaged with officials from the CCC following publication of the report, with the primary purpose of developing a clearer understanding of the scale of adaptation costs now facing the UK, and to assess the quality and reliability of the evidence base underpinning the CCC's investment framework. In turn, this informs our assessment of the UK's sovereign fiscal trajectory over the medium and long term against the current fiscal challenges.

While the investment required is large in absolute terms, it is modest relative to the scale of the damage it would avoid, the size of the UK economy, and the fiscal liabilities that inaction will generate. Without significant adaptation investment, the CCC estimates annual climate damage to the UK economy could reach £60 to £260 billion per year by 2050, equivalent to 1 to 5% of forecast GDP, rising to as much as 4 to 10% of GDP annually by end-century under a high-emissions pathway.

Our engagement focused on assessing whether the CCC's assumed allocation of the estimated £11 billion annual adaptation funding requirement between the public and private sectors represents a reasonable basis for planning. Under the CCC's central estimate, approximately £4 billion per year (0.2% of GDP) is attributed to the public sector, £4.5 billion to the private sector, while the remaining £2.5 billion has yet to be allocated. During the engagement, it was acknowledged that this figure is derived from historical sectoral spending norms rather than a forward-looking assessment of likely private sector response under worsening climate conditions. Our objective was therefore to test the robustness of the assumption that the private sector will continue to fund its implied share of adaptation investment and to understand the associated implications for public finances should this assumption prove optimistic. This distinction is important. The CCC note that 71% of UK businesses have not assessed any climate-related risk, and that only 29% of economic climate losses are currently covered by insurance. Against this backdrop, we questioned what role the government could play in supporting the mobilisation of private capital necessary to deliver the overall adaptation programme. Without stronger regulatory requirements, clearer price signals, and incentives to sustain private participation, there is no reliable basis for assuming that the private sector's £4.5 billion annual share will materialise without government acting as enabler, regulator, and in some cases co-funder. The engagement therefore sought to assess whether the assumed 36% public-sector share represents a realistic central estimate or whether a greater proportion of adaptation costs could ultimately fall on the public balance sheet. This question is particularly relevant given already stretched public finances, limited fiscal headroom and the fact that government has yet to quantify its current adaptation spending. Accordingly, the £4 billion figure is therefore better understood as a floor rather than a ceiling, representing a potential contingent liability that could materially exceed this baseline.

In this regard, it is important to emphasise that the £11 billion per year figure covers adaptation only. It does not include the cost of mitigation such as the investment required in low-carbon energy, buildings, transport, and industry to reduce the UK's greenhouse gas emissions in line with its statutory net zero commitment in part supported by the UK government green bonds programme launched in 2021. The eventual cumulative adaptation figure therefore represents only one component of climate-related fiscal challenge. The combined adaptation and mitigation bill, when formally assessed, will represent a materially larger claim on the public balance sheet than current fiscal planning reflects.

The CCC identifies the next three to five years as the critical window to establish funding frameworks, regulatory requirements, and spending commitments must be established. Not acting in this window will progressively foreclose lower-cost adaptation options and lock in potentially higher residual risk resulting in the fiscal liability borne by the government. We will monitor the government's formal response to the CCRA4-IA, which must be laid before Parliament by January 2027. This will constitute the first official government cost assessment of adaptation and determine the parameters for next National Adaptation Programme (NAP4), providing greater clarity on the likely fiscal implication. While the directional risks to the UK's fiscal position is skewed to the upside, the impact remains contingent on adaptation delivery, private sector mobilization and physical climate outcomes. At this stage, this does not warrant a revision to UK's sovereign assessment and therefore no change to the UK's Financial Stability Scores.

Governance and Fiscal Resilience

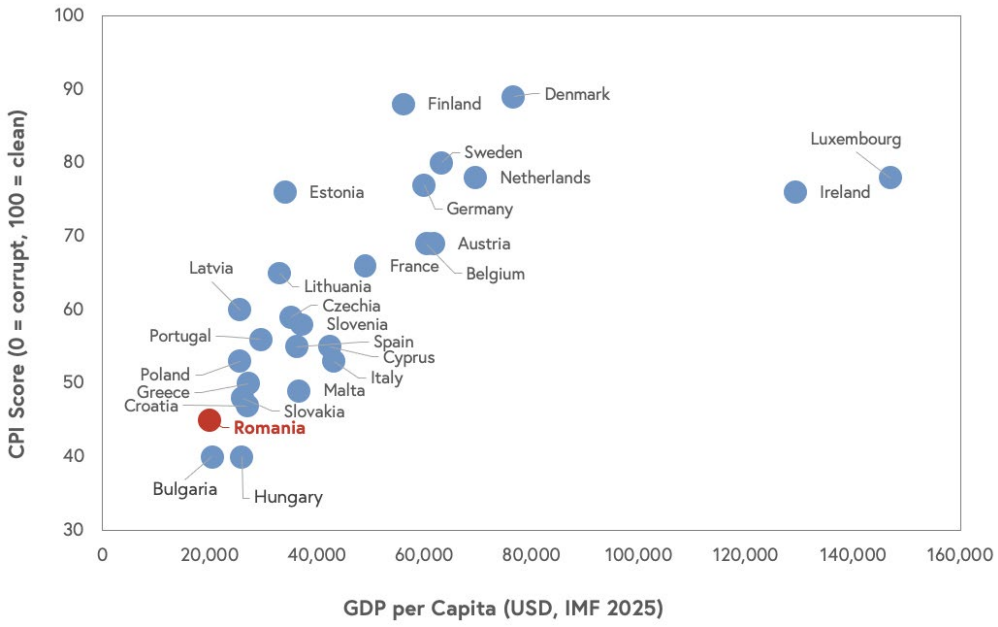
Our engagement with Romania focused on governance, or perceived lack of governance, fiscal consolidation and the factors shaping the country's medium-term fiscal outlook.

Romania

Romania entered 2026 with a complex mix of fiscal consolidation momentum, heavy reliance on EU funded investment, and persistent governance vulnerabilities that continue to influence investor perceptions. We engaged with the Fiscal Council and Ministry of Finance during a research trip to Bucharest, focusing on the stretched fiscal situation and the ongoing perception of corruption within the country. The authorities acknowledged these challenges but were keen to emphasise the reform trajectory and the anchoring role played by EU oversight.

The European Commission's 2025 Rule of Law Report for Romania highlights a mix of institutional progress but also structural challenges across governance, justice, and transparency. One area of focus within the report is the perception of corruption across society and the business sector. The Transparency International's Corruption Perceptions Index (CPI) 2025, the primary data source referenced by the Commission, scores Romania 45 out of 100, placing it 25th out of the 27 EU member states. The CPI scale runs from 0 (highly corrupt) to 100 (very clean), and the EU average across all member states stands at 62. This ranking is consistent with a broader pattern visible across the EU, whereby countries with higher perceptions of corruption also tend to record lower GDP per capita, as seen in Chart 4 below. Romania's position at the lower end of both measures underscores the structural link between governance quality and economic development. Reducing corruption can help ensure that EU funding and wider government expenditure are deployed more effectively, improving the quality of public investment, strengthening investor confidence, supporting stronger fiscal outcomes, and higher long-term growth. This helps explain why countries with stronger governance frameworks tend to achieve better economic outcomes over time.

Chart 4: Transparency International Corruption Perception Index 2025 and GDP per Capita IMF 2025



Sources: CPI: Transparency International Corruption Perceptions Index 2025 and IMF World Economic Outlook, April 2026

In the business environment, the report highlights that 90% of Romanian companies say corruption is widespread (EU average 69%) whilst 72% say corruption is a problem when doing business (EU average 35%). Elsewhere, public perceptions of corruption remain prevalent as 75% say corruption is widespread (EU average 69%) and 60% say corruption effects them personally (EU average 30%). This was key to our engagement with government officials during the research trip.

The Fiscal Council opened discussions by highlighting the notable improvement in fiscal performance through 2025. The deficit of -7.6% is expected to narrow to -6.4% in 2026, a pace of consolidation they described as "impressive" given Romania's initial conditions. They attribute a meaningful portion of this adjustment to stronger EU fund absorption, with renegotiated Recovery and Resilience Facility (RRF) terms turning segments of prior borrowing into grants and easing headline fiscal pressure. We directly engaged with the Council surrounding the perception of corruption where they acknowledged that corruption related concerns have surfaced, including through whistleblowing activity, but did not interpret these as potential negative shocks to the otherwise improving fiscal outlook trajectory. In their view, the decisive factor in EU fund execution is not administrative integrity, but the ability to implement projects within the specified timeframes.

The Ministry of Finance provided a more granular look at the fiscal mechanisms. Officials confirmed that the 2026 deficit target is anchored between –6% and –6.4%, broadly in line with commitments to Brussels, and emphasised that gross financing needs remain high during the transition phase to tighter fiscal policy. A substantial inflow from the EU's SAFE defence funding programme is pending, with most of these resources earmarked for defence investment rather than freeing up fiscal space. We once again directly engaged with officials addressing corruption concerns and the potential implications on fiscal slippage. Rather, they framed corruption as a legacy vulnerability being actively mitigated through reforms aligned with EU expectations, including justice system changes, the "Justice House" programme[4] and administrative modernisation. They also pointed to the OECD accession process, potentially completing in 2026, as additional pressure to lift governance standards and improve transparency.

Romania's fiscal consolidation path for 2026 appears achievable, particularly given the scale of EU support and the political commitment to maintaining expenditure discipline. However, the credibility of Romania's medium term fiscal strategy and its capacity to improve the business environment and investment climate will depend heavily on improvements in administrative capacity, the consolidation of anti-corruption enforcement through official frameworks, and the stabilisation of the legal framework governing public procurement and judicial independence. At this stage, there is no change to Romania's Financial Stability score for bonds or the currency.

Recent Political Developments

Since our January engagement, Romania's political landscape has shifted significantly. On 5 May 2026, Prime Minister Bolojan's pro-European coalition was toppled by a no-confidence vote backed jointly by the Social Democratic Party and the far-right Alliance for the Union of Romanians party, leaving a caretaker administration in place with limited powers. The most immediate consequence is execution risk around the 31 August 2026 RRF deadline, with approximately €10 billion in remaining disbursements contingent on a functioning government. The key outcomes to monitor are the speed of government formation to preserve RRF access and potentially a reassessment of the reform trajectory discussed with officials.

Evaluating Green Bond Frameworks and Issuance Plans in Spain

Spain illustrates how sovereign green bond frameworks are evolving in practice. Our engagements with the Spanish sovereign and state finance agency showed that neither is pursuing the formal European Green Bond label, despite having the technical capacity to do so. This has broader relevance as sovereign debt markets are increasingly asked to finance climate, social, and security objectives, making the definition of "green" more contested.

[4] The 'Justice House' is a Romanian government programme aimed at consolidating judicial institutions into a single campus to improve efficiency, transparency, and public access to justice. It forms part of the broader judicial reform commitments under Romania's National Recovery and Resilience Plan (PNRR).

Spain

Sustainable Finance and the EU Green Bond Standard: Engaging Spain's Public Sector Issuers

Colchester engages frequently with the principal issuers of sovereign green bonds to understand and evaluate their green bond frameworks and monitor issuance plans. In the first half of this year, we met two bodies that between them define the Spanish sovereign and quasi-sovereign green bond market: the state finance agency and the national treasury of the sovereign. Engagement focussed on several issues such as EU Taxonomy alignment, issuance plans and potential changes to green bond frameworks in the context of the EU Green Bond Standard (EU GBS), and of the impact of NextGenerationEU (NGEU) recovery funds. Both institutions, as it turns out, are heading for the same destination by quite different routes.

Both issuers have reached the same conclusion as regards the optimal green bond framework. Rather than pursue a formal European Green Bond (EuGB) label, which would mean demonstrating full or close to full Taxonomy alignment, each has chosen to issue under its own framework and disclose how far its green spending meets the Taxonomy's substantial contribution and Do No Significant Harm (DNSH) tests. The state finance agency set this out in its May 2026 green bond framework, committing to report the aligned proportion of proceeds in future, a change it told us came directly from investor feedback, including our own. In September 2026, the sovereign will publish an updated green bond framework and then issue a new green bond, likely at the 20-year point of the curve. An accompanying report will for the first time disclose alignment with substantial contribution, DNSH and the social safeguards, and how that alignment is changing over time. Both issuers were candid that they see little investor demand to issue EuGB labelled debt.

Two Routes to the EU Green Bond Standard: Spain's State Finance Agency and Sovereign

The Shared Challenge

- Full EU Taxonomy alignment is hard to prove across every sector
- Investor pressure for a formal EuGB label is currently limited
- Both issuers disclose the degree of alignment rather than chase the EuGB label

State Finance Agency

- Ringfences its aligned assets and already reports on them
- Building toward a possible EuGB issuance over time
- España Crece, the government's domestic investment programme, channels a lending pipeline through the bank, making it easier to build a pool of aligned assets over time

Sovereign Issuer

- Ringfences its compliant assets but will deliberately not issue an EuGB yet
- Avoids excluding sectors with less transparency such as water and agriculture
- A narrower EuGB programme would fall short of the €2.5-4bn needed to maintain market liquidity

Source: Colchester Global Investors, June 2026.

The two issuers differ in their future plans for their respective frameworks. The state finance agency is working towards partial alignment with the EU GBS by ringfencing the assets whose alignment it can fully demonstrate. These are mostly domestic projects where the project level data is clear and over time will build into a pool large enough to support a formal EuGB issue. España Crece, the government's domestic investment programme, runs a steady lending pipeline through the bank making that pool easier to assemble. The Spanish sovereign has taken the opposite decision. It could issue under the standard today but has chosen not to for three reasons. First, doing so would exclude sectors such as water and agriculture where alignment cannot be easily demonstrated. Second, it would shrink issuance to a narrow 'dark green' bond of perhaps €2bn and sacrifice the €3.5-4bn of annual liquidity the programme currently relies on. Third, the sovereign sees no investor demand for the label.

Spain was initially allocated €163bn under NGEU, a temporary €806bn EU-wide recovery package, split roughly between non-refundable grants and loans. In practice, Spain drew only the grant portion of around €80bn. The loan tranche, originally around €83bn, was almost entirely declined. As Spain's sovereign borrowing costs fell sharply in the years after NGEU was designed, the EU loan terms lost their financial advantage and became commercially undeployable. Spain ultimately only borrowed around €23bn from the NGEU loan tranche, with the final figure still being confirmed at the time of our engagements.

On the green credentials of that spending, the sovereign confirmed a technical but important point. NGEU's enabling regulation was written before the EU Taxonomy's delegated acts, the detailed pass/fail criteria, existed in full. The regulation echoes the Taxonomy's language and intent but is not legally linked to it. The consequence is that no NGEU expenditure can ever be formally certified as Taxonomy aligned, even where a project would in practice qualify, because it was never assessed against criteria that did not yet exist. Spain's widely quoted figure that 40% of the €60bn in resolved recovery funds went to green projects is therefore green in the programmatic sense, not the EU Taxonomy certified sense. This is a technical sequencing artefact, not a reflection of project quality, and the gap cannot be closed retrospectively. This distinction is worth noting for any analysis that treats NGEU green spending as a proxy for Taxonomy aligned assets, the España Crece investment pipeline included. More encouragingly, as NGEU winds down, green spending it had been crowding out reverts to the sovereign's own programme, for example a €400m electric vehicle scheme is expected to return in 2027.

Conclusion

Spain presents two issuers, the sovereign and a state bank, grappling with the same considerations as regards the EU GBS and their own Green Bond frameworks. Neither is rushing towards a label the market is not yet asking for, and both issuers gave us specific, attributable answers rather than generalities. The sovereign indicated that the substantial-contribution test is already met across most of its current programme, with DNSH alignment strong in rail and agriculture and least certain in the fragmented water sector. The state finance agency has tied a concrete framework change to investor feedback, including our own from previous engagements and the sovereign issuer's coming commitments point the same way.

Industry Collaboration

Colchester continues to support the development of sovereign ESG and climate-related frameworks through collaboration with investors, policymakers and academic institutions. During the first half of 2026, we remained actively involved in a number of industry initiatives aimed at improving the assessment of sovereign climate risks and opportunities, strengthening engagement practices, and promoting greater transparency in sustainable finance. We continued our work with ASCOR, supporting the ongoing development of the framework and contributing to investor dialogue on sovereign climate transition pathways, climate finance and governance. In addition, Colchester contributed to broader industry discussions through participation in working groups and collaborative forums focused on sovereign engagement and responsible investment. We believe these initiatives help support more informed investment decision-making, improve policy dialogue and encourage the development of credible frameworks for assessing long-term sovereign sustainability.

Industry Engagement: Hosting a Transition Planning Table at IMAS 20th Roundtable

At Colchester, we undertake direct engagement with issuers as well as engaging with industry initiatives and other collaborations to complement our FSS assessment and shape future sovereign frameworks. A number of those initiatives are listed below:

Industry Initiatives/ Collaborations	Aka	Description
Principles for Responsible Investment	PRI	Colchester is a signatory to the PRI, a UN-supported network of investors that works to promote sustainable investment through the incorporation of environmental, social and governance considerations.
Task Force on Climate- related Financial Disclosures	TCFD	Colchester is a supporter to TCFD since May 2019 and has published annual Sustainability Reports detailing its progress.
Transition Pathway Initiative	TPI	Colchester is a supporter of TPI – a global, asset-owner led initiative which assesses companies' preparedness for the transition to a low carbon economy. However, as a sovereign only asset manager, we are a research funding partner to develop a sovereign climate assessment framework via the ASCOR project.
Green Bond Transparency Platform	GBTP	Colchester is a supporter to the GBTP by the Inter-American Development Bank (IDB) and IDB Invest. IDB Invest is an innovative digital tool that brings greater transparency to the green bond market in Latin America and the Caribbean. GBTP supports the harmonisation and standardisation of green bond reporting, boosting investors' confidence that the proceeds from bond issuances are being spent on green projects whose impact are adequately measured.

Industry Initiatives/ Collaborations	Aka	Description
Assessing Sovereign Climate-Related Opportunities and Risks Project	ASCOR	Colchester is co-chair to the project, with the goal to develop an assessment framework that enables the current and future climate change governance and performance of sovereigns to be fairly and appropriately measured, monitored and compared.
Investors Policy Dialogue on Deforestation	IPDD	The objective of the IPDD initiative is to ensure long-term financial sustainability of investments in the countries they are invested in by promoting sustainable land use and forest management and respect for human rights. The IPDD will engage with relevant government authorities, and industry associations and other relevant stakeholders to encourage adoption and implementation of regulatory frameworks that ensure protection of tropical forests and human rights.
Investment Management Association Singapore	IMAS	Colchester is a co-chair of the IMAS ESG Working Group, which jointly support industry ESG capacity building.
Nasdaq Sustainable Bond Network Advisory Board	NASDAQ	Colchester is a member for the Nasdaq Sustainable Bond Network. It connects issuers of sustainable bonds with investors, empowering them to evaluate impact and make informed investment decisions on sustainable bonds.
PRI Collaborative Sovereign Engagement on Climate Change Australia	PRI	The Collaborative Sovereign Engagement on Climate Change is a pilot PRI led investor initiative to support governments to act on climate change. The Australian initiative consists of three sub groups focusing on different parts of sovereign systems: a) National governments b) National regulators and authorities and c) Sub sovereigns.
PRI Collaborative Sovereign Engagement on Climate Change Canada	PRI	The strategy and activities of the engagement programme are overseen by the Canadian Signatory Advisory Committee, and the Canadian Technical Advisory Group provides technical expertise on climate policy and sovereign engagement.
PRI Collaborative Sovereign Engagement on Climate Change Japan	PRI	The Japan engagement programme is overseen by a signatory led Japan Advisory and Working Group, which both advises the PRI on programme structure and conducts engagement activities. The programme is supported by the PRI, with access to technical expertise on climate policy and sovereign engagement through the initiative's technical groups.

As of June 2026

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