



Ministry of Finance
Republic of Latvia



REPUBLIC OF ESTONIA
MINISTRY OF CLIMATE



EVERSHEDS
SUTHERLAND

EU TAXONOMY IMPLEMENTATION AND SUSTAINABLE FINANCE ROADMAP FOR ESTONIA AND LATVIA

14.07.2023



The Project is carried out with funding by the European Union via the Technical Support Instrument and in cooperation with the European Commission's DG Structural Reform Support and implemented by the Ministry of Environment of Estonia and Ministry of Finance of Latvia, in cooperation with the European Commission's DG REFORM and the EBRD.



European Bank
for Reconstruction and Development

Opening of the workshop



Mr. Édouard Gomet

European Commission

*The Directorate-General for Structural Reform Support
Policy Officer*



Mr. Dan Meshulam

European Bank for Reconstruction and Development

Associate, Capital and Financial Markets Development (CFMD)



Ms. Aire Rihe

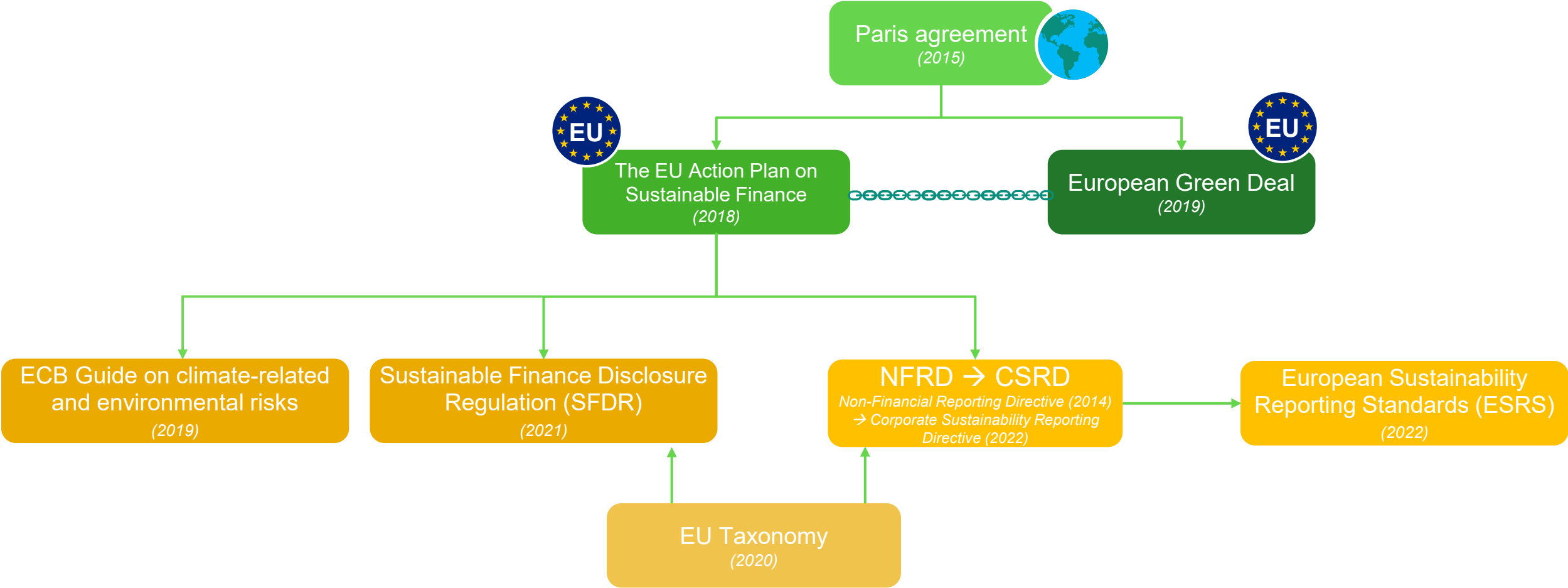
Ministry of Climate of Estonia

Green Reform Advisor

A close-up photograph of a hand reaching into a field of green wheat stalks. The hand is positioned on the left side of the frame, with fingers slightly spread, touching the wheat. The wheat stalks are vibrant green and have long, thin awns. The background is a soft-focus field of similar wheat, creating a sense of depth. The overall lighting is bright and natural, suggesting a sunny day.

Recap of the project

Context for sustainable finance in the EU



Source: KPMG



Key questions for implementation

1. What is the starting point for implementation of sustainable business principles in Estonia?
2. What is the market readiness for implementation of the ESG regulatory framework?
3. What are the drawbacks and missing links?
4. How the market can be supported to better meet the regulatory requirements and successfully transition to more sustainable business models?
5. How to facilitate efficient use of financial and capital market instruments for that purpose?

Project focus

Analysis of existing ESG readiness of the market participants across diverse sectors

ESG reporting practices, interviews, analysis of publicly available information and statistics

Analysis of the regulatory environment and potential barriers that might hinder implementation of the ESG regulatory framework and use of sustainable finance

Legal analysis, investor surveys, review of practices outside Baltics

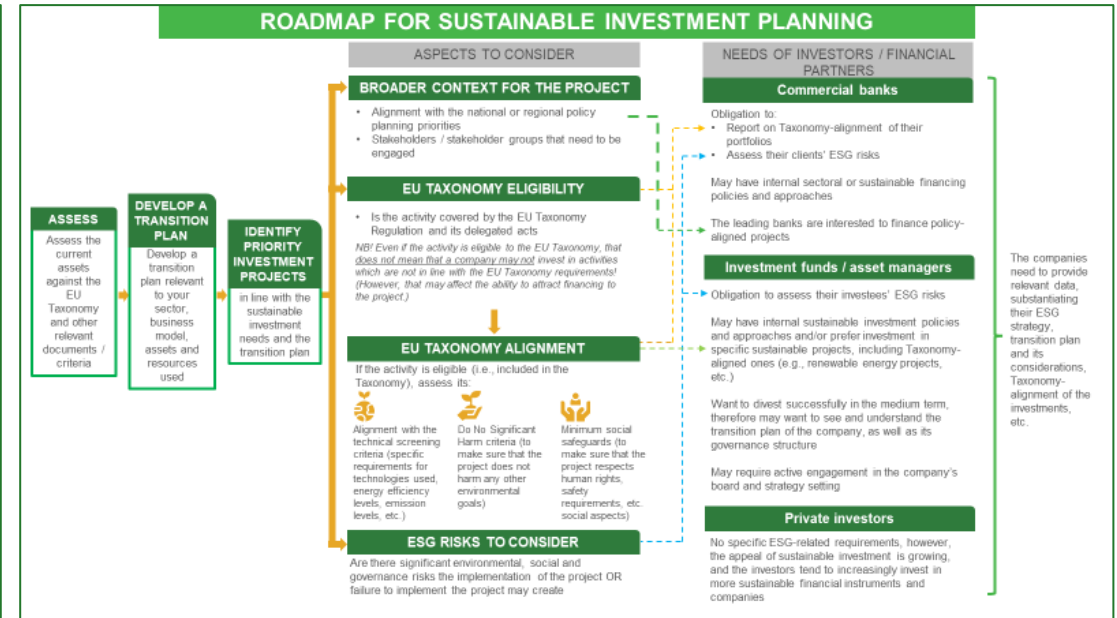
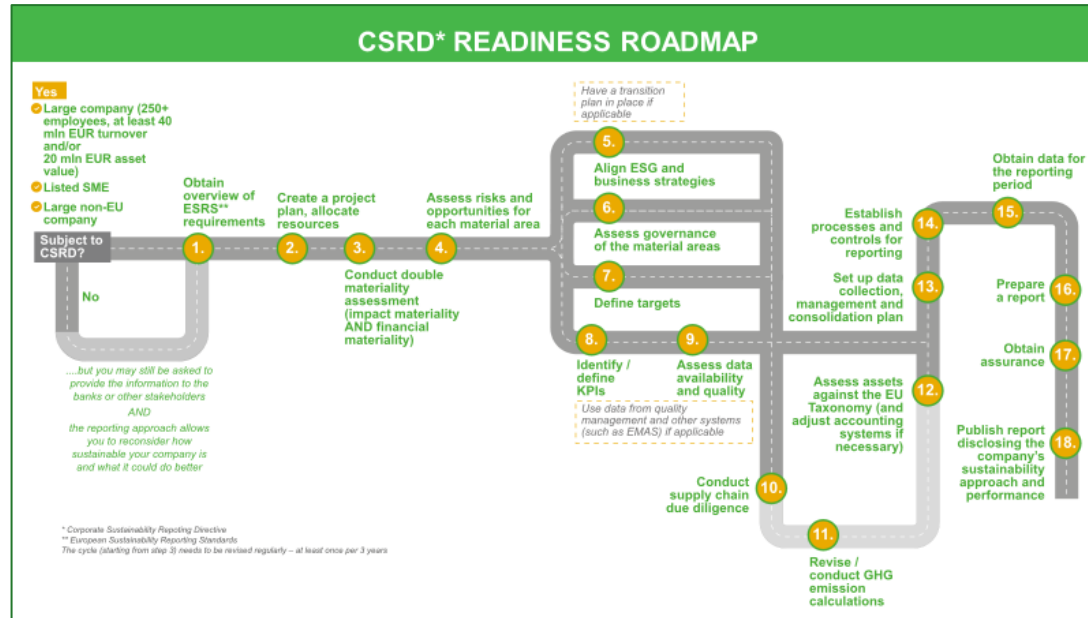
Development of practical CSRD and Taxonomy-readiness roadmaps for companies

Case studies, schematic roadmaps, discussion in stakeholder workshops (February 2023)

Development of Sustainable Finance Roadmap with policy recommendations for the policy making authorities

To be discussed today

Practical roadmaps for companies



Today's focus – policy recommendations

1 Awareness and education

Development and operations of a Knowledge Hub

Increasing market competencies

2 Empowering market participants

Incorporation of sustainability objectives into the corporate governance structure of enterprises

Stewardship initiative

Empowerment of financial sector and capital markets

3 Ensuring accountability

Green labelling

Control environment

4 Public sector as a role model

Alignment with public policy planning and implementation

Sustainable state and municipal investments

Regional cooperation and alignment

Sustainable finance and sustainable economic development in Estonia

Panel discussions

1. Practical implementation of the EU regulations – the role of the knowledge hub and awareness raising
2. Market readiness – stewardship of the financial sector and ability of the non-financial sector to embrace the opportunities of sustainable finance and sustainable investment
3. Public sector as a role model in implementation of sustainability principles





Panel discussion 1

Practical implementation of the EU regulations –the role of the knowledge hub and awareness raising

Sustainable Finance Roadmap

1 Awareness and education

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Main challenges

- 1** Lack of information and understanding **which ESG regulations apply to a specific company, what is the timeline and the interrelation** among diverse regulations
- 2** Insufficient **knowledge and practical skills in applying and implementing the regulatory requirements** at the specific company
- 3** Lack of **supporting information and data, including comparative sector-level data** (especially important for the financial sector and investors)

Consider development and operation of a Knowledge Hub

Approach

- Source of information for various types of stakeholders
- Provision of support and guidance (ESG Support Platform)
- Facilitation of promotion and awareness
- Mapping and ensuring data availability
- Regular information on sustainable finance
- Cluster-based structure

Expected results:

- Create a platform for setting sustainable finance landscape in Estonia
- Provide guidance to financial and non-financial sector stakeholders
- Bridge the gap

Proposed implementation steps:

- 01** Establishment of the expert cluster and planning of its operations
- 02** Development of version 1.0 of the hub (ESG Support Platform)
- 03** Launch of the ESG Support Platform
- 04** Identification of data needs, existing data sources and respective data holders, as well as relevant data that is currently unavailable and will need to be gathered separately
- 05** Ensuring access to data, potentially in Open Data Portal

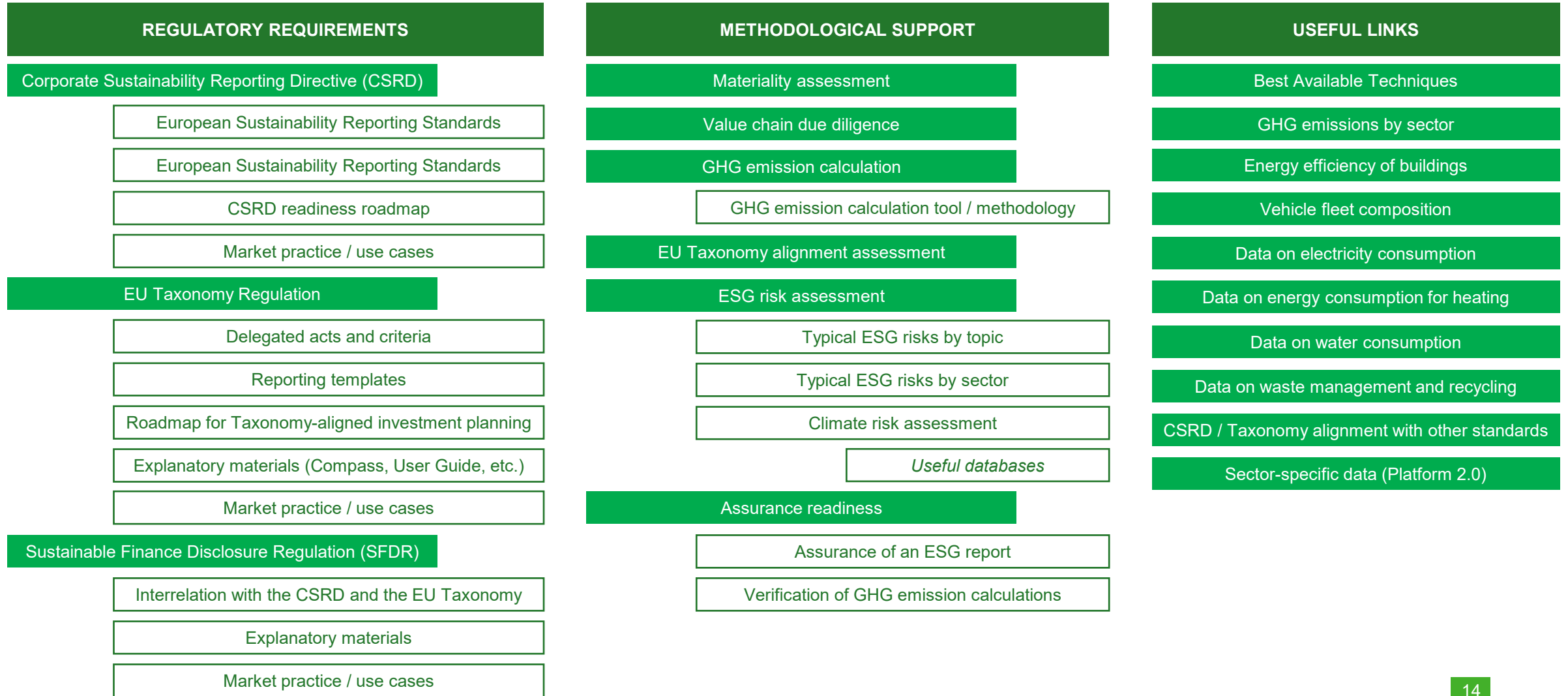
Short-term (1-12 months)

Medium-term (13-24 months)

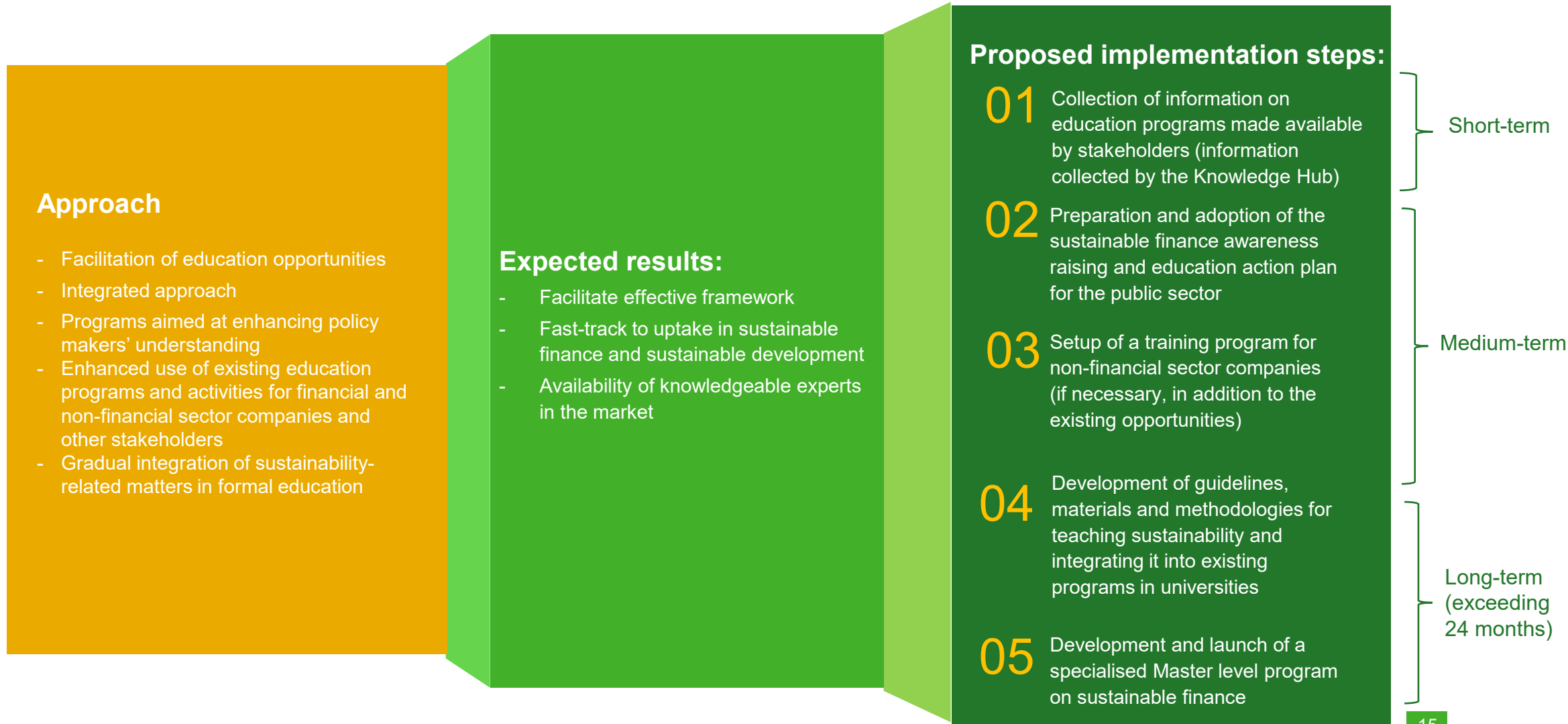
Short-term

Medium-term

Initial structure of the ESG Support Platform



Increasing market competencies



Control environment

Approach

- Review of sustainability-related information and further use of data
- Use of the European Single Access Point as a one-stop-shop directory
- Integration of sustainability-related data into the section on annual reports in the Electronic Declaration System (EDS)
- Integration with other ESG data reporting needs
- Educating the market on best practices of reporting
- Monitoring of reporting development

Expected results:

- Access to data
- Multiple uses of reported data
- Streamlined reporting practices

Proposed implementation steps:

- 01** Implement duties of Member States according to the European Single Access Point Regulation
- 02** Map the currently diverse reporting requirements of different state institutions with the CSRD topics
- 03** Define mandatory CSRD reporting topics for specific sectors, if applicable
- 04** Develop EDS add-ons for sustainability-related data
- 05** Collect and provide best practices for reporting on the ESG Support Platform – complementing them with expert comments
- 06** Review of reporting quality and additional market education on most specific mistakes and drawbacks, if necessary

Medium- to long-term

Short-term

Medium-term

A regular activity once a year

Panel discussion No. 1

Practical implementation of the EU regulations –the possible role of the Knowledge Hub and awareness raising

Moderator



IEVA KUSTOVA

ESG &
Sustainability
expert



RAGNE MAASEL

Group Head of
ESG at LHV



KATI ROSTFELDT

Innovation Advisor
& Sustainability
Expert at the
Estonian
Employer's
Confederation



**KAIA-KRISTIINA
KIRIKAL**

Corporate
Sustainability and
Quality Manager at
AS Harju Elekter
Group



TÕNU TUPPITS

Sustainability
Development
Expert at Estonian
Business and
Innovation Agency

Coffee break
10 minutes



Panel discussion 2

Market readiness -
stewardship of the financial
sector and ability of the non -
financial sector to embrace
the opportunities of
sustainable finance and
sustainable investment



Sustainable Finance Roadmap

1 Awareness and education

Consider development and operations of a Knowledge Hub

Increasing market competencies

2 Empowering market participants

Incorporation of sustainability objectives into the corporate governance structure of enterprises

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Alignment with public policy planning and implementation

Sustainable state and municipal investments

Regional cooperation and alignment

Sustainable finance and sustainable economic development in Estonia

Main challenges

- 1 Acting in the best interests of a beneficiary – **how to balance profit with long-term sustainability goals** and **limit** management **liability** for higher risks?
- 2 For financial sector – **how to mitigate potential conflict** between pursuing sustainability and maintaining financial stability? **How to harmonize understanding and expectations** with other market participants?
- 3 Undeveloped capital markets – how to facilitate that private and public companies **use capital markets for financing needs**, also for sustainability projects?
- 4 Growing demand for sustainable investments – how to encourage development of green bonds and other **EU Taxonomy aligned financial products**?
- 5 Accountability for sustainability-related information – **how to create a common approach** for labelling financial products and services aligned with EU Taxonomy? **How to promote transparency** and **inform investors** about sustainable options?

Incorporation of sustainability objectives into the corporate governance structure of enterprises

Approach:

Privately and state / municipal owned enterprises:

- Adoption of sustainability strategy
- Consider green issuances from SOEs
- Sustainability committees
- Stakeholder engagement

State and municipal owned enterprises:

- Letter of expectations
- Sustainability objectives as an integral part of company's operations
- Fulfilment of sustainability objectives

Expected results:

- Sustainability objectives in governance and decision-making process
- Privately owned enterprises follow the example made

Proposed implementation steps:

01 Consider updating of Estonian Corporate Governance Code (also in line with the expected updates in the OECD guidelines)

Short-term
(1-12
months)

02 Require state-owned enterprises to incorporate sustainability objectives into letter of expectations and strategy

Medium-term
(13-24
months)

Stewardship initiatives

Approach

- Common understanding of ESG objectives by the financial sector and its clients

Harmonization of understanding and expectations:

- Unified approach for clients
- Expectations from regulatory authorities are aligned

Contents and objectives:

- Desired level of Taxonomy alignment and recommended sources
- Adjusted borrower-based measures

Expected results:

- Adopted stewardship code in Estonia
- Common approach towards clients
- Aligning sustainability objectives with prudential requirements

Proposed implementation steps:

- 01 Setup of a working group of sustainability experts
- 02 Development, adoption and publishing of stewardship code

Short-term

Long-term
(exceeding
24 months)

Empowerment of financial sector and capital markets

Approach

- Continued development of green and sustainable products
- Cost reduction, streamlining of information

Financial sector:

- Consumer and enterprise-oriented products
- Information on sustainable investments for Pension Pillars

State and municipal institutions:

- Tapping into capital markets
- Consider issuing public sustainable financial instruments

Expected results:

- State and municipalities are entering capital markets
- More sustainable investment options

Proposed implementation steps:

01 Activities to promote use of sustainable finance instruments

Short-term

02 Consider developing guidance on sustainable financial instruments

Short-term

03 Ministries consider encouraging implementation of sustainable finance instruments

Medium-term

04 Financial sector is proposed to develop an approach on how to foster development of new EU Taxonomy-aligned financial products

Short-term

Green labelling

Approach

- Substantial advantages and cost reductions
- Market research on the potential demand
- Common Pan-Baltic approach
Engagement of experts
- Eligibility and criteria, certain alignment with EU Taxonomy

Expected results:

- Pan-Baltic green labelling program
- Development of green financial products
- Steering investors towards sustainability
- Access to new investor pools

Proposed implementation steps:

01 A market evaluation to determine the interest of market participants

Short-term

02 Considering of the creation of a Pan-Baltic committee comprising of state authorities and experts

Medium-term (if applicable)

03 Consider development of operational aspects of the green labelling program, incl. eligibility and criteria

Medium-term (if applicable)

04 Consider establishment of the green label and promotional activities

Long-term (if applicable)

Panel discussion No. 2

Market readiness - stewardship of the financial sector and ability of the non -financial sector to embrace the opportunities of sustainable finance and sustainable investment

Moderator



ĢIRTS RŪDA
ESG Lead at
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MARJU ZIREL
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**RIIN SAVI,
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LILI KIRIKAL
CFO,
Member of the
Management
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Panel discussion 3

Public sector
as a role model

Sustainable Finance Roadmap

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Alignment with public policy planning and implementation

Sustainable state and municipal investments

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Sustainable finance and sustainable economic development in Estonia

Main challenges

- 1 State and municipal institutions **should prioritize sustainability** by incorporating targeted policy planning and tailored incentives to **drive the sustainability agenda on a large scale**
- 2 Sustainable public investment (procurement) and transition activities in sectors such as energy, transport, water management, and data transmission should be a **key focus for state and municipal institutions and enterprises**
- 3 State and municipal institutions need to **enhance their expertise in sustainability and prioritize long-term goals over short-term measures**, while updating procurement practices to prioritize sustainability over cost

Alignment with public policy planning and implementation

Approach

- Sustainability considerations integrated in all public policy decisions
- Public sector education on UN SDGs and EU Green Deal goals
- Integration into draft decision annotations
- Integrated solutions to major sectoral challenges

Expected results:

- Increased awareness of the public sector on its role in sustainable development
- Integrated approach to policy planning
- Efficient use of limited resources
- Clear priorities for citizens and businesses

Proposed implementation steps:

01 Preparation of an overview and data on the current status of SDGs and Green Deal goals and the following priorities, presentation to state and municipal entities

Short-term

02 Organisation of an annual update and clear communication of the goals and implementation status

Annually, starting in 2024

03 Update of the draft policy document annotations (both on government and municipal level)

Short-term

04 Definition of cross-sectoral priorities aimed at achievement of sustainability goals

Short-term

Sustainable state and municipal investments

Approach

- Development of procurement policies to procure sustainable, green products and services
- Procurement policies require certain sustainability and EU Taxonomy alignment

Operations:

- Procurement Excellence Centre
- Best practice sharing between various state and municipal authorities

Expected results:

- Promotion of Procurement Excellence Centre in Estonia and Latvia
- Sustainable state and municipal infrastructure, e.g. energy efficient buildings, electric vehicles
- Encouraged private companies to enhance their readiness to participate in green, sustainable procurements
- Consider setting numerical target in relation to procurements at least in value should be classified as green

Proposed implementation steps:

- 01 Set-up / Promotion of Procurement Excellence Centre in Estonia and Latvia

} Medium-term

Regional cooperation and alignment



Panel discussion No. 3

Public sector as a role model in implementation of sustainability principles

Moderator



TARMO TOIGER

Partner, Head of Management Consulting and Technology at KPMG Baltics



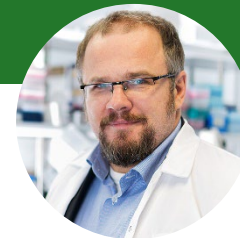
EILI LEPIK

Deputy Strategy Director at the State Chancellery



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Green Reform Advisor at the Ministry of Climate



PROF MART LOOG

Professor of Molecular Systems Biology at University of Tartu



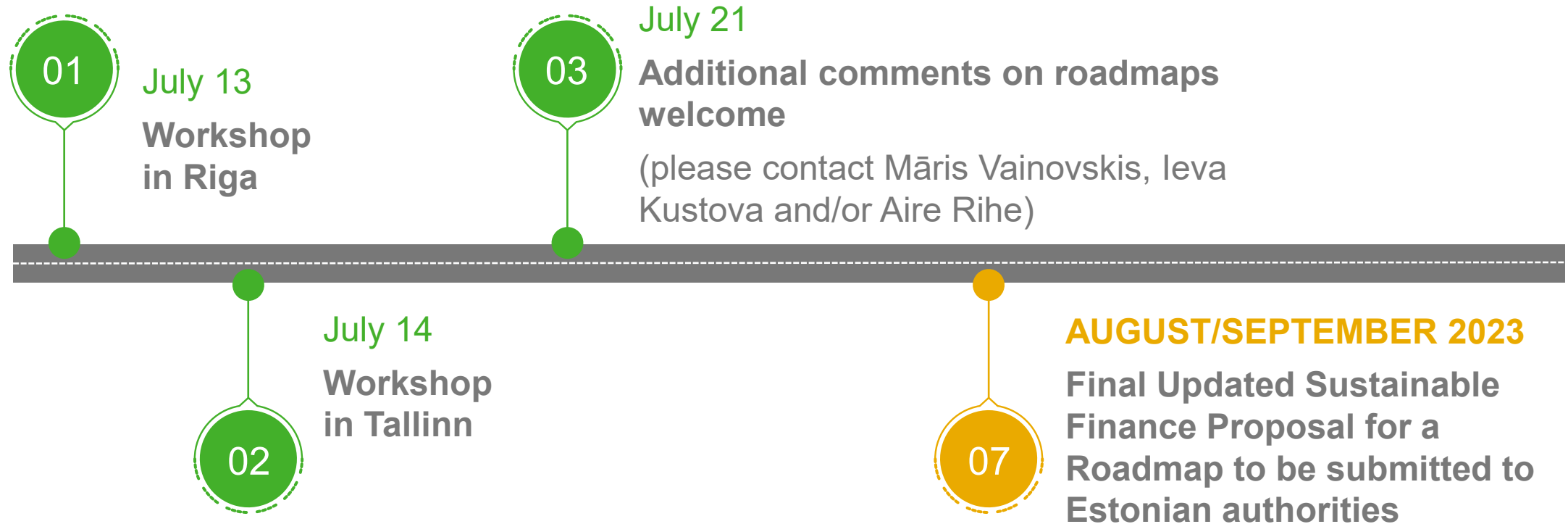
MARI LAHTMETS

Advisor at the Fiscal Policy Department of the Ministry of Finance

A close-up photograph of a mossy rock with ferns in a forest setting. The moss is a vibrant green, and the ferns are dark green. The background is dark and out of focus.

Next steps

Further stakeholder involvement





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SUTHERLAND

Thank you!

Contact details for inquiries about the Project and comments on the policy recommendations:



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