

SUSTAINABLE FINANCE ROADMAP FOR ESTONIA

2023



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European Bank
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The Sustainable Finance Roadmap (Roadmap) is a set of policy recommendations developed within the framework of the “EU Taxonomy Implementation and Sustainable Finance Roadmap for Estonia and Latvia” project (Project). The recommendations are aimed at increasing the use of sustainable financial and capital market products and enabling more sustainable economic development in Estonia.

The recommendations are based on sustainability-related regulations stemming from the EU Action Plan for Sustainable Finance adopted in 2018 and the Strategy for financing the transition to a sustainable economy published in 2021¹, which create the basis for sustainable finance across the EU.

The key regulations considered for the purpose of this Roadmap are:



The EU Taxonomy Regulation and its delegated acts², which provide a classification system for distinguishing environmentally sustainable economic activities in line with EU Green Deal commitments and other policy planning documents outlining the EU's ambition to achieve environmental objectives. The EU Taxonomy requires financial sector companies to report on the Green Asset Ratio of their portfolios (i.e., the proportion of Taxonomy-aligned assets). This, in turn, means that the financial sector needs to request that information from their clients, who need to understand how to apply the Taxonomy principles to their investment planning and make the necessary assessments. Additionally, the EU Taxonomy defines certain reporting obligations for large and listed companies, which need to establish new accounting practices to be able to disclose information on the Taxonomy-alignment of their economic activities.



The Sustainable Finance Disclosure Regulation (SFDR)³, which requires asset managers to assess their investees' ESG risks and disclose the sustainability-related role of their financial instruments (e.g., addressing minimum ESG risks, considering ESG criteria as an important factor for their investment decisions, or having ESG as the key factor for investing). Again, this requires asset managers to obtain information from their investees, who need to understand this request and be able to deliver meaningful and accurate information and data.



The Corporate Sustainability Reporting Directive (CSRD)⁴, which addresses the issue of too little reliable data on companies' sustainability – data which may also be used for assessing the EU Taxonomy alignment and SFDR aspects already noted. The aim of the CSRD is to significantly expand the number of companies that need to deliver mandatory annual information on their sustainability performance, and to define detailed requirements for delivering that information (through the European Sustainability Reporting Standards⁵). Compliance with the CSRD will gradually increase the amount of information and data on sustainability of certain companies and sectors and will help the financial and capital markets make informed financing and investment decisions about those companies and sectors.

Apart from the legislation mentioned above, additional regulatory acts and guidelines outline detailed requirements of ESG risk assessment for banks, conducting ESG due diligence on companies' suppliers, and the like.

The policy recommendations included in this Roadmap are based on a detailed analysis of the level of awareness among Estonian companies of the legislation noted above and their meaningful implementation, thus facilitating more sustainable development of the economy using sustainable finance. These recommendations are prepared by the Project team and based on its expertise in the Baltic and Nordic countries. They do not comprise the official opinion of any state or municipal authority, or enterprise, nor are they binding on any state, municipal authority, or enterprise, except if state authorities take any binding decisions or adopt policy planning or regulatory documents based on these recommendations.

The general objective of these recommendations is to facilitate sustainable economic development and resilience across sectors and encourage uptake of sustainable finance in Estonia.

For any inquiries on the Project and this Roadmap, please contact Aire Rihe, Advisor on Green Reforms, Ministry of Climate (aire.rihe@kliimaministerium.ee).

1 https://finance.ec.europa.eu/publications/strategy-financing-transition-sustainable-economy_en

2 https://finance.ec.europa.eu/sustainable-finance/tools-and-standards/eu-taxonomy-sustainable-activities_en

3 https://finance.ec.europa.eu/sustainable-finance/disclosures/sustainability-related-disclosure-financial-services-sector_en

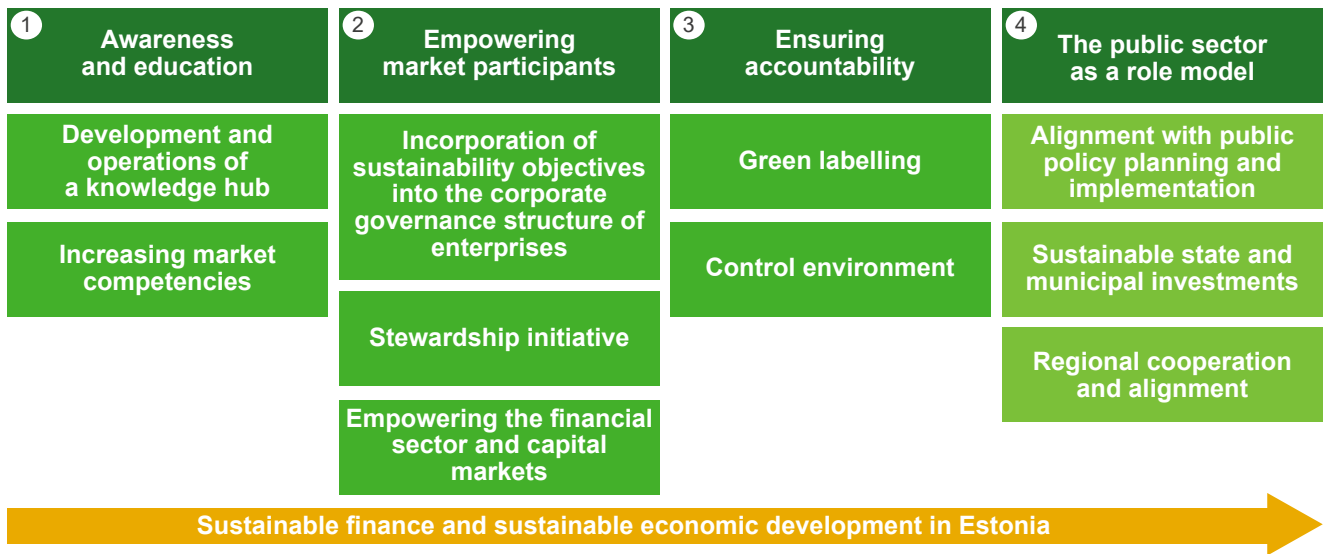
4 https://finance.ec.europa.eu/capital-markets-union-and-financial-markets/company-reporting-and-auditing/company-reporting-and-auditing/corporate-sustainability-reporting_en

5 https://finance.ec.europa.eu/regulation-and-supervision/financial-services-legislation/implementing-and-delegated-acts/corporate-sustainability-reporting-directive_en

Structure of the Roadmap

The following document consists of four main sections and relevant policy recommendations therein as depicted in Figure 1.

Figure 1 . Overview of the Sustainable Finance Roadmap for Estonia



Source: KPMG Baltics and Eversheds Sutherland Bitāns, 2023

The activities related to the four categories of recommendations above are covered in detail in the following sections. Each of the recommendations and specific activities therein is intended to be implemented in the short-term (1-12 months), medium-term (13-24 months), or long-term (exceeding 24 months).



AWARENESS AND EDUCATION

In order to effectively take up use of sustainable finance instruments and to use sustainable finance for the successful transitioning of the economy, it is essential to increase awareness and knowledge, and to facilitate dialogue among the diverse parties involved – large enterprises, small and medium-sized enterprises, start-ups, the financial sector, capital market participants, and the public sector. Currently, knowledge is limited about sustainable finance, ESG criteria, and related subjects among non-financial sector companies which need financing for their operations and investments, and an uneven level of understanding among financial sector companies and investors on how to apply sustainability principles to their financing and investment decisions.

These issues can be addressed by establishing a Knowledge Hub. The Hub will support both financial and non-financial sector companies in finding relevant information, seeking guidance and obtaining practical advice, as well as creating an expert platform for the further development of the sustainability landscape in Estonia. In addition, diverse education programmes and activities developed by state authorities responsible for education and sectoral NGOs need to be facilitated, especially during the first years of the EU Taxonomy and the CSRD implementation. This would increase the overall awareness of businesses and professionals concerning sustainable development, regulatory requirements and their practical application, as well as facilitating experience sharing among public and private stakeholders.



1. DEVELOPMENT AND OPERATION OF A KNOWLEDGE HUB

APPROACH

■ **Establishing a Knowledge Hub.** Under the aegis of the government, an expert hub could be set up, comprising organisations and individual experts already specialising in sustainable finance and related areas. The Hub will be able to provide collective knowledge to the market, showcase best practices, interpret regulatory requirements, and seek solutions for emerging issues related to implementation of sustainable finance in practice. The Knowledge Hub might serve as an expert network and/or a single point of entry for access to information on the EU Taxonomy, sustainable finance, sustainable, social, and green financial products, the CSRD and its implementation, useful methodologies and expert advice, best practices of the EU Taxonomy and reporting implementation available in the market. At the same time, it may simultaneously serve as a channel for information exchange with policymaking and implementing authorities on deficiencies in the sustainability-related regulatory environment and enforcement of regulations. Based on initial stakeholder feedback, the Estonian Business and Innovation Agency (EBIA) might serve as a coordinator of the Knowledge Hub. The EBIA already has its own training programmes and materials suitable for inclusion among the Hub's resources. The specific form of the Hub needs to be discussed and decided on by the diverse stakeholders engaged in its set-up.

Substance

■ **Overall awareness.** One of the primary tasks of the Knowledge Hub will be related to raising overall awareness among various types of businesses, especially small and medium-sized companies (SMEs), on sustainability practices and the reasoning behind them. SMEs rarely face the same sustainability requirements as larger companies, so they first need to understand why they need to do anything at all. The Knowledge Hub may explain how "green" business could facilitate competitiveness, how acknowledgement of material sustainability topics for a specific business may help to better manage risks, and when and how a company may be held accountable for green claims, including greenwashing.

■ **Resource.** The Knowledge Hub would act as a resource for both public and private financial and non-financial sector companies seeking information and insights about sustainable finance, including

aspects that should be considered when applying for financing. This may include provision of access to independent research, data, and other resources useful for evaluating ESG performance of financial products and their issuers. The Ministry of Finance is already preparing a resource on CSRD readiness for companies. However, additional resources and support may be needed to ensure compliance with the regulation and meaningful implementation.

■ **Provide support.** The Knowledge Hub would provide guidance to financial and non-financial sector companies as they seek to develop and offer sustainable financial products, prepare for reporting in line with the CSRD, plan sustainable investments, assess their clients or investment targets based on ESG criteria. Based on stakeholder feedback, it is advisable that the Knowledge Hub should set up, make available and maintain – according to the experts' area of competence – a web-based ESG Support Platform. The Platform will provide centralised access to regulations, their interpretation, guidance, methodological advice, useful datasets and other resources as applicable. It is also necessary that small and medium-sized companies can find information relevant for them – e.g., which regulations apply to them and under what circumstances, what is the basic information they should be able to supply to their bank (at the same time it should be noted that specific requirements may differ from one bank to another). The ESG Support Platform would act as a central repository of up-to-date, unbiased, quality information – a starting point which takes into account the diverse needs of stakeholders and provides information based on their level of knowledge. In particular, stakeholders need roadmaps and tools for greenhouse gas (GHG) emission calculations, supply chain analysis, practical Taxonomy application, climate risk assessment, and other areas. The ESG Support Platform should be open, flexible for updates, and based on positive user experience to achieve the result of increasing competences in the market. The preliminary structure of the ESG Support Platform is depicted in Figure 2. The Knowledge Hub should be able to address users of the ESG Support Platform through easily reachable channels (e.g., through sectoral associations, business organisations, networks) and invite them to start using the ESG Support Platform. Stakeholders have already confirmed that they need access to such a resource as soon as possible. In addition to the Platform, the Hub should serve as a network for cooperation in the area of sustainable finance.

Figure 2. Proposed structure of the ESG Support Platform

REGULATORY REQUIREMENTS	METHODOLOGICAL SUPPORT	USEFUL LINKS
Corporate Sustainability Reporting Directive (CSRD)	Materiality assessment	Best Available Techniques
European Sustainability Reporting Standards	Value chain due diligence	GHG emissions by sector
CSRD readiness roadmap	GHG emission calculation	Energy efficiency of buildings
Market practice / use cases	GHG emission calculation tool / methodology	Vehicle fleet composition
EU Taxonomy Regulation	EU Taxonomy alignment assessment	Data on electricity consumption
Delegated acts and criteria	ESG risk assessment	Data on energy consumption for heating
Reporting templates	Typical ESG risks by topic	Data on water consumption
Roadmap for Taxonomy-aligned investment planning	Typical ESG risks by sector	Data on waste management and recycling
Explanatory materials (Compass, User Guide, etc.)	Climate risk assessment	CSRD / Taxonomy alignment with other standards
Market practice / use cases	Useful databases	Sector-specific data (Platform 2.0)
Sustainable Finance Disclosure Regulation (SFDR)	Assurance readiness	
Interrelation with the CSRD and the EU Taxonomy	Assurance of an ESG report	
Explanatory materials	Verification of GHG emission calculations	
Market practice / use cases		

Source: KPMG Baltics and Eversheds Sutherland Bitāns, 2023



- **Promotion and awareness.** The Knowledge Hub would cooperate with financial and non-financial sector companies to promote use and acceptance of sustainable financial products. This may involve partnering with financial institutions and other public and private sector stakeholders to develop educational materials, awareness campaigns, and other initiatives that highlight the benefits and importance of sustainable finance, as well as maintaining regular communication on the benefits that sustainable finance brings.
- **Data availability.** Information on public and private sector sustainability-related performance is one of the prerequisites for increasing green lending, and it also contributes to a wider use of green financial instruments and compliance with disclosure requirements. The data sets that are already recognised as important for further increase in sustainable finance include: energy efficiency data (housing energy efficiency, transport, agriculture, other sectors), energy consumption (including electricity, heating and use of various types of fuel), water consumption, composition of vehicle fleets per sector and type of fuel, waste management and actual recycling of materials, GHG emissions across sectors. The Knowledge Hub would follow up on deficiencies in access to this data and allocate responsibilities for filling gaps. The National Open Data portal operated by the Ministry of Economic Affairs and Communications is a potential facility for providing access to data as it already holds part of the information outlined by the industries. The Knowledge Hub and co-operation between ministries and the financial sector would help in addressing data availability (data format, data collection and transfer, potential limitations, sectoral analysis and other needs).
- **Sustainable finance information day.** Within the framework of the Knowledge Hub, the authorities in charge of financial sector policymaking and enforcement could hold an information session for the relevant market participants at least twice a year (later may be organised on an annual basis). These will be used to inform market participants about the latest updates concerning the Sustainable Finance Framework in the EU and its implementation at national level, to maintain the level of awareness and ensure application of the most recent approaches to sustainable finance and investing. Information may be complemented with practical roadmaps, where necessary and possible, for both financial sector as well as non-financial sector companies (including SMEs). Roadmaps would outline key steps that companies should take in order to comply with

regulatory requirements or exploit sustainable finance opportunities.

GOVERNANCE AND MAINTENANCE

- **Working group.** It is advisable that a cross-sectoral working group be established to ensure that experts on sustainable finance, ESG, overall sustainable economic development, and related topics are adequately represented in the Knowledge Hub. This working group should include not only institutions related to financial sector policymaking and implementation, but also ministries and other institutions in charge of sustainability-related state policies, and/or institutions which may facilitate understanding and use of sustainability concepts. The working group should meet, for example, once a month, during the setup of the Knowledge Hub and the ESG Support Platform as its core tool.
- **Advisory group.** A broader advisory group would engage other stakeholders from financial and non-financial sector organisations, NGOs, academia, CSRD and EU Taxonomy experts, who can provide guidance to the owners of the Knowledge Hub. Expert engagement should be on a voluntary basis – in order to create content that supports the market as a whole and increase overall awareness and understanding of sustainable finance. The Advisory group may include such organisations as the Estonian Employers' Confederation, the Estonian Chamber of Commerce and Industry, Finance Estonia, other associations, and relevant experts as applicable.
- **Maintenance and updating.** Regular maintenance and updates are essential to ensure that the information provided by the Knowledge Hub remains up to date. For this reason, it is recommended that working group meetings are conducted, for example, on a quarterly basis, and the responsibility for updating information is clearly allocated and followed up on. Meetings may also be used to prepare for the sustainable finance information day noted above.
- **Two-way communication.** The Knowledge Hub should enable two-way communication – on the one hand, it will serve as a single point of entry for businesses searching for reliable information on sustainable development, related regulations and their implementation. On the other hand, it may also serve as an experience exchange platform for sustainability experts and a feedback loop for policymakers obtaining information from the market on deficiencies in existing regulation or its enforcement, and the necessity for new or adjusted policy initiatives.

EXPECTED RESULTS

- **Create a platform for defining the sustainable finance landscape in Estonia.** Sustainable finance and sustainable economic development are open to interpretation, and currently there is insufficient experience concerning the actual application of the new regulations. The Knowledge Hub would set the ground for expert discussions and identification of commonly accepted implementation approaches, which can further be promoted among financial and non-financial sector companies.
- **Offer guidance:**
 - To financial intermediaries with knowledge about financial products and services but not necessarily with extensive expertise or a clear approach to sustainability and ESG-related matters. Establishment of the Knowledge Hub, along with other information resources provided by consulting firms and other market participants, would provide a valuable resource for financial intermediaries seeking to support their clients' sustainability efforts.
- **Bridge the gap.** By providing information and resources on sustainable finance, ESG criteria, and related topics, the Knowledge Hub can help bridge the gap between the financial sector and non-financial sector companies seeking to integrate sustainability into their business practices, and facilitate a more even understanding of the pathways to sustainability.
- To non-financial sector companies which face not only the EU Taxonomy and ESG reporting obligations but also increasing interest about their ESG performance from commercial banks or investors. However, they tend to lack information on how to meet these requirements. Through the Knowledge Hub, companies could get direct access to the regulatory provisions and guidance on how to comply with them, including useful external resources, methodologies, and data.

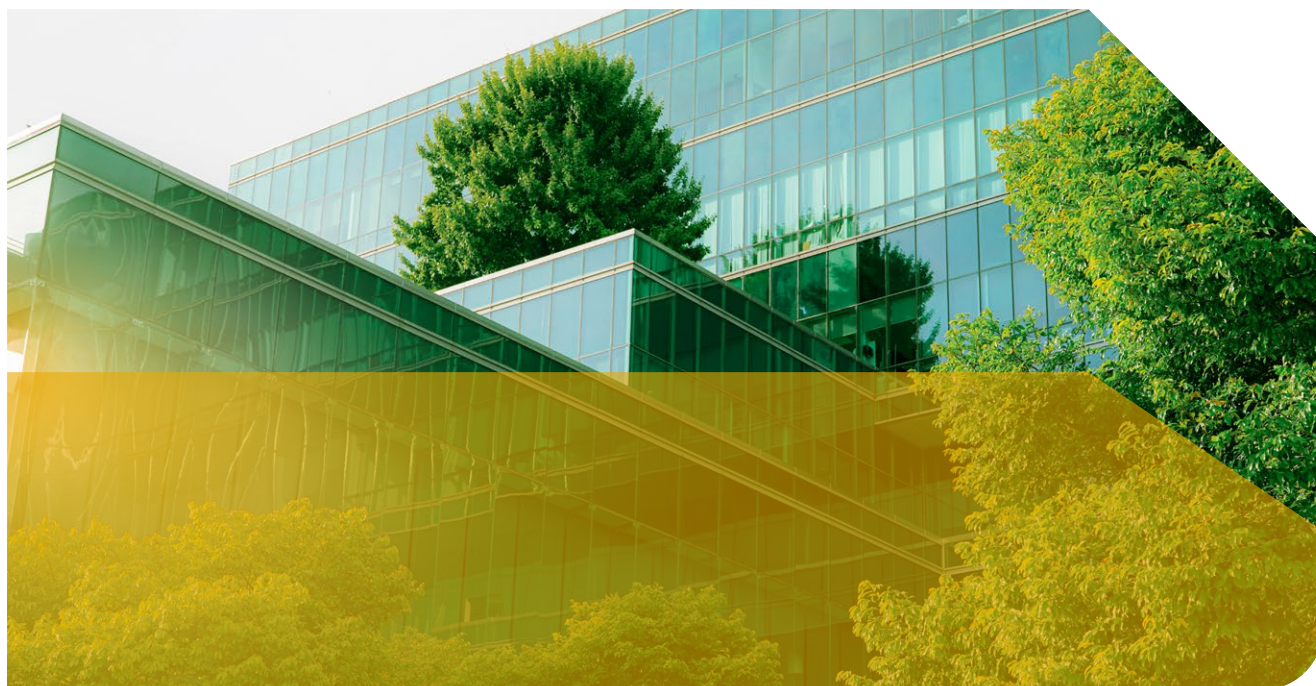
IMPLEMENTATION

Proposed steps

- Establish a cross-sectoral working group regarding sustainability and ESG matters and information management
- Designate the authority responsible for managing the Knowledge Hub
- Establish an advisory group engaging stakeholders from financial and non-financial sectors
- Knowledge Hub commences operations
- Develop version 1.0 of the Hub (ESG Support Platform) – its content index and technical solution

Timeframe

- Short to medium-term



2. INCREASING MARKET COMPETENCIES

APPROACH

■ **Facilitation of educational opportunities.** To complement the activities of the Knowledge Hub, it is also necessary to facilitate an increase in overall sustainability-related competencies in the market. This means that authorities should encourage market participants to use existing educational opportunities concerning sustainability, and support formal education efforts towards increasing overall knowledge of private and public sector institutions, companies and professionals on sustainability-related matters.



Target audiences and formats

■ **Integrated approach.** For successful implementation of the EU Taxonomy and uptake of sustainable finance, it is essential that private sector companies be aware of the requirements and their actual impact on business. The professionals working for those companies must be knowledgeable and skilled in order to ensure compliance with regulations and meaningful implementation of sustainability principles. The public sector, in turn, should set and implement sectoral policies, through incentives encouraging companies to make sustainable investments and introduce sustainable business practices. These might be tax incentives, advantages in public procurement, facilitation of sustainable capital markets, introduction of practical use advantages for certain types of assets. Accordingly, three types of educational activities should be encouraged, and, if necessary, be specifically set up:

- Programmes aimed at enhancing policymakers' understanding of sustainability challenges, the role of sustainability aspects in their decision making, and the impact of these decisions on the private sector, as well as upgrading their leadership with regard to sustainable development. These programmes should not be focused on sustainable finance only, but on the broader sustainability context, the challenges, and opportunities for public and private sectors alike. The Environmental Investment Centre (KIK) under the aegis of the Ministry of Climate may take responsibility for developing programmes, ensuring quality and attendance of representatives, using external service providers where necessary, e.g., for content creation.

- Broader use of existing education programmes and activities for financial and non-financial sector companies and other stakeholders to enhance their knowledge and skills in relation to investments in sustainable assets, changing conventional business models, and use of sustainable finance in enabling change. For non-financial sector companies, training sessions should raise their overall awareness of sustainability matters and relevant regulations. For the financial sector, training may be more focused on specific ESG risks and asset assessment related topics, especially for smaller local financial institutions which do not have extensive strategic support from larger group structures operating internationally. Existing and planned training opportunities provided by the Estonian Business and Innovation Agency (EBIA), Estonian universities, the Green Tiger academy programme, NASDAQ (training for listed companies), the Baltic Institute for Corporate Governance (Board Members' education programme, which increasingly includes sustainability-related topics), and various training programmes offered by private sector consultancies may be used to increase business awareness and understanding of these topics.
- Sustainability-related matters should be gradually integrated into formal education, to increase the chance that professionals in the fields of business administration, economics, financial management, law, communication and marketing, quality management, public administration, data analysis and others are aware of the fundamentals of sustainable economic development when entering the job market or willing to increase their competencies. Sustainable development would gradually become an everyday business practice in companies, rather than a separate investment or compliance-related issue, and it would cover not only environmental but also social and governance areas. In addition, specialised programmes may be developed to increase availability of financial experts knowledgeable in sustainability and sustainable finance.

EXPECTED RESULTS

- **Facilitate an effective framework.** The public sector is a key player in promoting sustainable investments and aligning the economy with the EU Taxonomy. It can create effective policy planning, and a regulatory framework to support sustainable investments but, in order to do so, it first needs a clear understanding of the sustainable finance landscape and its context.
- **Fast-track to uptake in sustainable finance and sustainable development.** Education and training are necessary to achieve sustainable finance goals. Facilitating or providing further education to private sector companies and professionals will speedily increase their understanding of sustainable economic development and use of sustainable finance.
- **Availability of knowledgeable experts in the market.** Currently, there is a shortage of experts who are simultaneously knowledgeable in a specialised field (e.g., finance or law) and, at the same time, about sustainability and the role of business in it. Encouraging integration of sustainability-related matters in formal education pathways would increase the inflow of experts to the market, enable companies to transform their business models and operations, and implement regulatory requirements more efficiently.

IMPLEMENTATION

Proposed steps

- Collect information on education programmes made available by stakeholders (information collected by the Knowledge Hub)
- Prepare and approve a sustainable finance awareness-raising and education plan/approach for the public sector
- Set up a training programme for non-financial sector companies, if necessary
- Collaborate and share developed guidelines, materials and methodologies on sustainability and sustainable finance to ease integration of the content into existing university programmes (if universities show interest in doing so)

Timeframe

Short to long-term



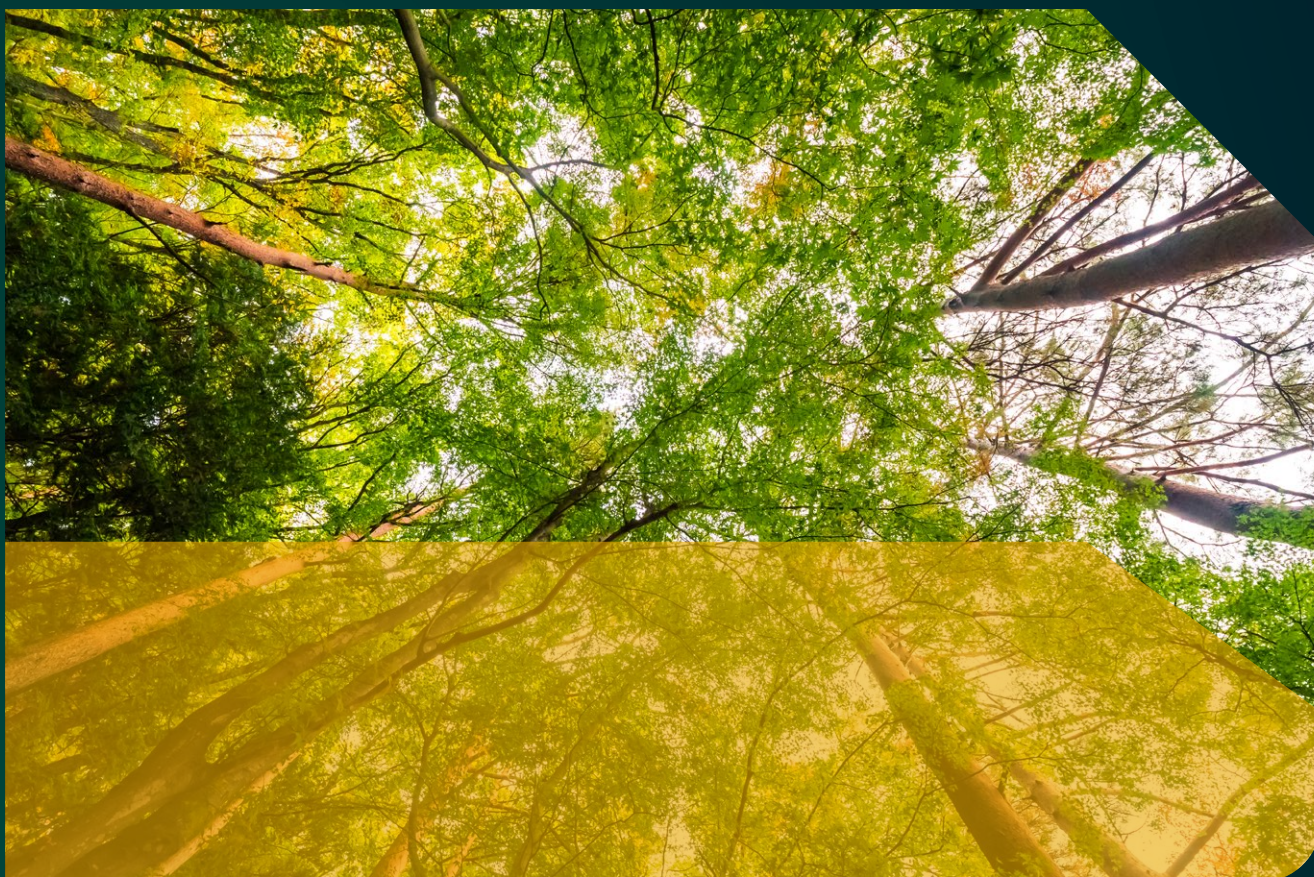
EMPOWERING MARKET PARTICIPANTS

Fiduciary duty, a widely used and binding concept in the business environment, is the legal responsibility to act in the best interests of a beneficiary. This entails balancing pursuit of company profit with potential conflicts that profit maximisation may have with long-term sustainability goals. Pursuing sustainability can involve higher risks, and lower profit, for which company management may be held responsible. Therefore, to prioritise sustainability and limit the potential liability of management board members it is crucial to integrate sustainability objectives into company strategy.

From another perspective, sustainability enquiries by the financial sector cause inconvenience for clients. Credit institutions are encouraged to pursue sustainable investments and issue loans, while fulfilling existing prudential requirements. In certain situations, the state can use macroprudential tools to support sustainable investments. For instance, increase the loan-to-value ratio for energy-efficient buildings, thus reducing the downpayment and making energy-efficient buildings more affordable.

As is characteristic of a small country, capital and financial markets in Estonia are less liquid and less developed compared with larger economies. While some examples exist of enterprises, including state-owned enterprises, accessing capital markets, and benefiting from them, generally most companies are reluctant to obtain financing from capital markets and thus do not enjoy the benefits. Therefore, state policy could be developed so as to allow and facilitate enterprises, including state and municipal owned enterprises, to use capital markets as a source of financing. All financing and borrowing decisions should be made responsibly and based on the strategic needs of a company, considering the overall debt burden on the state and budgetary requirements.

Within the Estonian financial sector and capital market, almost no EU Taxonomy-aligned products are available. However, given the growing global demand for sustainable investments, it may be beneficial for both public and private sectors to encourage development of such products and make use of them within the Estonian and international financial sectors and capital markets.



3. INCORPORATION OF SUSTAINABILITY OBJECTIVES INTO THE CORPORATE GOVERNANCE STRUCTURE OF ENTERPRISES

APPROACH

- **Good governance as a pre-requisite for sustainable investing.** In order to attract investors (in particular, those who prioritise sustainable investments), it is essential that companies are well governed and include sustainability principles in their overall governance policies and approaches. This applies to both large enterprises and small and medium-sized companies. To facilitate achieving that end, the state authorities should promote good governance practices and may consider updating the existing Corporate Governance Code, which acts as soft law for companies across diverse sectors. Corporate governance codes developed by other EU countries may serve as examples. In order to foster sustainability and competitiveness, it is recommended that good governance practices as soft law be extended to all companies, including SMEs.
- **Creation of a sustainability committee.** Companies, especially large enterprises, are advised to establish sustainability committees comprising both internal and, where possible, external stakeholders with expertise in sustainability and environmental issues. At the same time, companies should appoint a person at management level responsible for coordinating the committee, implementing committee decisions and overall sustainability efforts in the company.
- **Stakeholder engagement.** Companies should consider engaging with stakeholders, including investors, employees, customers, and suppliers, to understand their sustainability expectations and concerns. This should be a strategic, organised effort conducted on a regular basis.



Private and state- / municipality-owned enterprises (SOEs)

- **Adoption of a sustainability strategy.** Companies should consider creating comprehensive sustainability strategies which consider ESG issues that are most relevant to their operations and integrate them into overall company business strategies. In this way, companies would ensure that sustainability objectives are aligned with long-term value creation. Material and relevant key performance indicators (KPIs) may be promoted and linked to ambitious sustainability performance targets (SPTs) defined for the long-term.
- **Fostering green issuances by SOEs.** A sustainable bond issuance and facilitation plan could be developed for SOEs in order to facilitate sustainable borrowing by these entities. Annual increase targets for sustainable bonds and other sustainable debt instruments may be communicated to SOEs through shareholder letters of expectation. In any case, SOEs are independent in their financing decisions, and regardless of the financial instruments used, they should borrow responsibly and based on their strategic needs. A sustainable borrowing policy would support the development of the Estonian capital market by providing local investment opportunities to institutional investors.



State and municipality owned enterprises

- **Comprehensive and unified practices.** The State Assets Act already mandates SOEs to adhere to good corporate governance practices and to provide detailed accounts of compliance in their annual reports, particularly concerning the significant economic, social, and environmental impact of their operations. Furthermore, it requires clear articulation of the owner's expectations in terms of the strategic and financial objectives of a SOE. However, to enhance effectiveness, it is advisable to further expand these practices, providing more comprehensive, specific, and standardised guidelines on sustainability matters. Additionally, these practices should be extended to encompass municipally owned enterprises.
- **Letter of expectations (“*Omaniku ootused*” as named in the State Assets Act).** Shareholders (i.e., ministries or municipalities) could ensure that the shareholder letter of expectations clearly outlines the company's sustainability objectives and emphasises their importance. This will provide guidance to the management board and ensure that sustainability is one of the core considerations in company operations.

- Sustainability objectives as an integral part of company operations. Company management boards should align short- and medium-term strategies with shareholder letters of expectations, considering sustainability matters as an integral part of company objectives. Although the board has discretion to prepare the strategy, it should be emphasised that sustainability is crucial.
- Fulfilment of sustainability objectives. The shareholders' meeting (general meeting) should be notified on an annual basis of the strategies adopted and fulfilment of sustainability objectives. This will ensure that shareholders are aware of company commitment to sustainability and can hold the company accountable for its actions.

EXPECTED RESULTS

- Corporations are encouraged to pursue sustainability objectives. Privately owned enterprises have a clear approach concerning their sustainability strategy and governance, and state and municipal authorities, within their letters of expectations, include sustainability objectives for decision-making. Thus, company management will be able to define their sustainability approaches, use sustainable and green financial products and services for their implementation, and be more considerate about ESG factors in everyday decision-making. .

IMPLEMENTATION

Proposed steps

- Establish a working group with the purpose of updating the Corporate Governance Code consisting in representatives from *Finantsinspektsioon* (the Financial Supervision and Resolution Authority), Nasdaq Tallinn and other stakeholders (or integrating this working group into relevant existing or upcoming cooperation platforms)
- Update the Corporate Governance Code (also in line with expected updates in the OECD guidelines prioritising ESG in enterprise governance) and develop amendments to relevant laws (e.g., the Commercial Code, the Accounting Act, the State Assets Act), if deemed necessary, to implement the updated Corporate Governance Code in practice
- Amendments to the State Assets Act requiring SOEs to incorporate sustainability objectives into the letter of expectations, and medium- and long-term strategies

Timeframe

- Short to long-term



4. STEWARDSHIP INITIATIVES

APPROACH

■ **Common understanding.** Credit institutions and other financial market participants may engage in dialogue with the regulatory authorities to harmonise and incorporate sustainability objectives in their risk management frameworks. This can be achieved by developing a voluntary stewardship code (or similar guidance), which would prescribe standardised best practices for financial institutions and clients to reach a common understanding on sustainability-related matters. The stewardship code may be developed through a bottom-up approach with industry representatives. However, it is crucial for them to actively engage and to collaborate with regulatory authorities throughout the development process.



Harmonisation of understanding and expectations

- **Unified approach for clients.** The code may outline a common approach for obtaining information from clients and investees, with special focus on companies seeking financing, such as green loans or green investments. This would reduce the administrative burden on private companies as different financial institutions currently require different information. Standardised best practices and a dedicated procedure for obtaining information may be introduced to determine the amount and format of information that companies need to provide, which financial market participants can adopt and adhere to.
- **Expectations for green financing.** Industry representatives may outline best practices for green financing within the stewardship code, including their goals and objectives for issuance of green loans. It is also important for them to consider engaging with regulatory authorities, in order to ensure that the code aligns with the expectations and principles of sustainable finance in the economy. This would facilitate adoption of sustainable finance practices.



Contents and objectives

- **Contents.** The stewardship code could include at least the following sections: (1) Obtaining information from companies, including a common approach towards clients (consistency across financial institutions, administrative burden reduction, recommended set of questions to assess client sustainability); (2) Expectations from regulatory authorities (setting expectations for the financial sector, clarity for credit institutions, facilitating adoption of sustainable finance practices); (3) Recommended sources for assessment of Taxonomy-alignment, ESG risks. Throughout the development process, these sections may need further modifications to better reflect the needs of clients and industry representatives.
- **Level of Taxonomy alignment.** The financial sector, in cooperation with the regulatory authorities, may consider a preferred or recommended level of Taxonomy alignment of portfolios of the local financial sector, in order to achieve effective implementation of sustainable finance and the stewardship code in practice by 2030.
- **Loan-to-value for energy-efficient buildings.** Several macroprudential instruments are currently being implemented in Estonia. These instruments include requirements such as a loan-to-value ratio of 90% and a debt service-to-income limit of 50%. To further encourage sustainable investments, the Bank of Estonia has the potential to introduce more attractive criteria specifically for energy-efficient buildings or other sustainable investments. One possible measure could be to increase the loan-to-value ratio allowed to banks when financing energy-efficient buildings, thus reducing the down-payment for potential homeowners. Increasing the loan-to-value ratio for energy-efficient buildings may decrease credit risk, as the operating costs are lower, which leads to improved cash flow. Besides, energy-efficient buildings also have a higher value and long-term cost stability compared to traditional buildings, thus justifying a minor increase in the permitted loan-to-value ratio. In any scenario, banks have to comply with the regulatory requirements established by the regulatory framework at both national and EU levels. This approach enables banks to better align their sustainability objectives with the existing prudential framework.

EXPECTED RESULTS

- **Common approach towards clients.** Financial sector participants with valuable guidance from the regulatory authorities should consider developing a stewardship code. The stewardship code would establish a recommended framework to ensure that financial market participants have similar approaches towards their clients with regard to their sustainability efforts, and their impact on financing / investment decisions. The code may be binding or non-binding, as agreed among stakeholders. Throughout the development process of the stewardship code regulatory authorities will provide valuable guidance and recommendations; however financial sector participants will remain the primary responsible party for the code's development.
- **Aligning sustainability objectives with prudential requirements.** Developing a stewardship code should provide a framework for addressing the conflict between sustainability objectives and prudential requirements and establish common standards for disclosure and analysis of ESG risks. This should be done in accordance with the latest EU legislation.

IMPLEMENTATION

Proposed steps

- Set up an ad-hoc working group for development of a stewardship code consisting of sustainability experts from regulatory authorities and credit institutions and other financial intermediaries
- Develop, adopt, and publish a stewardship code

Timeframe

- Short to long-term



5. EMPOWERING THE FINANCIAL SECTOR AND CAPITAL MARKETS

APPROACH

- **Continued development of green and sustainable products.** To empower the financial sector and capital markets, it is important to promote the development and expansion of green and sustainable products. This can include green bonds or sustainable investment funds that direct investments towards environmentally friendly or socially responsible companies and projects.
- **Cost reduction.** *Finantsinspektsioon* reviews prospectuses for issuance of both traditional and sustainable financial instruments for a fee of EUR 600. It may be beneficial to waive this fee for review and approval of prospectuses for issuance of sustainable financial instruments. Nasdaq Tallinn and Nasdaq CSD should explore other potential measures, including the possibility to consider adjustments to listing fees and / or the process of listing, in order to prioritise sustainable financial instruments. It is advisable to conduct a survey of issuers to ascertain obstacles under the existing approach before implementing changes.
- **Streamlining of information.** To encourage potential issuers to issue sustainable financial instruments, *Finantsinspektsioon* could engage in the development of materials on sustainability in capital markets, including best practices, and publish them on its website and the ESG Support Platform. The materials could include guides outlining the process for preparing and issuing sustainable financial instruments and distinctions between sustainable and traditional financial instruments.



Financial sector

- **Consumer- and enterprise-oriented products.** The financial sector could consider offering more Taxonomy-aligned loan products. For instance, while credit institutions and other financial institutions are already offering green financing options for various purposes, they could expand the selection of products targeting financing of, for example, electric vehicles, installation of solar parks or other alternative energy sources, energy efficiency improvements in residential or industrial buildings, and the like. The

financial sector should also more thoroughly assess sustainable projects submitted for financing by large enterprises, which are considerably more complex.



State and municipal institutions and companies

- **Tapping into capital markets.** State and municipal enterprises could be encouraged to tap into capital markets by issuing, for example, green, social, sustainability and sustainability-linked bonds. In addition to stimulating activity in capital markets, the issuance of green bonds can also contribute to the overall growth and development of the Estonian economy. However, all financing and borrowing decisions should be made responsibly and based on the strategic needs of a company.
- **Public Sustainable Financial Instrument Issue Plan.** The Ministry of Finance could consider and may adopt a Public Sustainable Financial Instrument Issue Plan, considering principles of state cash flow management, stabilisation reserve management and budgetary requirements. The plan could set the gradual objective that, in the long-term, a certain percentage of all financing attracted by the state (in the broader sense) from capital markets is obtained through the issuance of sustainable financial instruments. The plan could also set detailed objectives as to instrument types, including the planned proportion of green, sustainable, social, and sustainability-linked financial instruments. It is recommended that the Public Sustainable Financial Instrument Issue Plan covers state authorities, and municipalities as well as state and municipal owned enterprises.
- **Provision of consultations.** If the previous recommendation is implemented, it is advisable that the Ministry of Finance share own experience on sustainable financing and provide consultations on implementing a Public Sustainable Financial Instrument Issue Plan to state and municipal institutions and companies, which are less aware of the capital markets and sustainable financial instruments. If the plan is implemented, the Ministry of Finance should provide annual progress reports on its website.

EXPECTED RESULTS

- **More options.** Increased availability and variety of green and sustainable financial products in the market and an expanded range of Taxonomy-aligned loan products, such as financing options for electric vehicles, solar park installations, energy efficiency, new sustainable technologies. More investment options for society, as state and municipal enterprises tap into capital markets.
- **Sustainable investments.** Requiring disclosure of investment policies for sustainable investments and Taxonomy-aligned investments would encourage the market to prioritise sustainable investment practices. Providing participants with the option to choose investment plans aligning with sustainable investment principles empowers them to exert a direct impact on promoting sustainability and responsible investing.
- **Sustainable capital markets.** Adoption of the Public Sustainable Financial Instrument Issue Plan, which mandates that in the long-term a certain percentage of the state's capital market financing are sourced through sustainable financial instruments, would lead to an increased sustainability within capital markets. Furthermore, the state will be compelled to direct funds obtained through sustainable financial instruments toward investments in more sustainable projects, ensuring proper a use of proceeds.

IMPLEMENTATION

Proposed steps

- *Finantsinspeksioon* considers publishing on its website a guide that outlines the process for preparing and issuing sustainable financial instruments and explains distinctions between sustainable and traditional financial instruments (may require expansion of the mandate of *Finantsinspeksioon*)
- *Finantsinspeksioon* considers waiving the fee for review and approval of prospectuses for issue of sustainable financial instruments (may require expansion of the mandate of *Finantsinspeksioon*)
- *Finantsinspeksioon* together with the financial industry considers developing an approach to fostering development of new Taxonomy-aligned loan products following demand from clients (may require expansion of the mandate of *Finantsinspeksioon*)
- Ministry of Finance considers adopting a Public Sustainable Financial Instrument Issue Plan

Timeframe

- Short to long-term



ENSURING ACCOUNTABILITY

Ensuring accountability for sustainability-related information provided by financial intermediaries or non-financial sector companies is a priority, and establishing a Green Labelling programme is an important step. This initiative, which may be implemented on a pan-Baltic level, aims to create a common approach, and to designate a competent authority for labelling financial products and services aligned with the EU Taxonomy. By implementing this programme, the Baltic states would seek to promote

transparency, inform investors about sustainable options, and position the region as a leader in sustainable finance.

It is also essential to promote best practices in sustainability reporting, transparency and accountability, as well as systemic use of data obtained across different sectors, sustainability and policy-implementation areas.



6. GREEN LABELLING

APPROACH

- **Existing standards and labels.** Within the EU, numerous established green labelling programmes currently exist, the largest being the SRI Label in France, Towards Sustainability in Belgium, and LuxFLAG in Luxembourg. For the Nordic region, the Nordic Swan Ecolabel scheme, which applies, among others, to investment funds and investment products, is a widely recognised approach. Additionally, several proposals regarding green labelling or similar initiatives have been put forth at EU level. Noteworthy examples include the initiative concerning the EU Ecolabel for retail financial products, the proposed Regulation for European Green Bonds, and planned amendments to SFDR and Benchmarks Regulation. Consequently, a new green label in the Baltics might be established if it offers greater advantages than currently existing labels.
- **Simple method and process.** Establishing a pan-Baltic EU Taxonomy aligned (green) labelling programme may be valued by both issuers and investors. The programme could be designed in a manner that minimises costs for issuers, while also making the method and process for obtaining the green label simple and understandable. Initially, the state (if established on a pan-Baltic basis, then all Baltic states) might consider subsidising issuance of green labels to sustainable financial products. Without the state imposing significant additional expenses and making the process smooth, issuers are more likely to embrace the green label. While investors generally appreciate the presence of a green label, they may not currently be inclined to offer interest rate discounts to issuers solely based on the green label.
- **Evaluation.** Prior to establishing the programme and designing its specifics, it is essential to undertake thorough market research to assess potential demand for the programme. This research should include an evaluation of the possible institutional structure, and whether it should be implemented locally or on a pan-Baltic scale. In case the assessment yields positive results, a potential approach for the institutional and practical set-up of the programme is presented below. This approach does not require establishment of new authorities to develop and initiate operations of the green label programme.



Proposed set-up

- **Common approach and competent authority.** The Baltic states could consider establishing an EU Taxonomy-aligned (green) labelling programme for all types of financial products and programmes. The competent authority for green labels awarded to financial instruments and services might be a state authority, similar to (or the same as) the competent authority for issuance of the EU Ecolabel in each Baltic state. If a decision is taken that a pan-Baltic approach is unnecessary, the programme could be implemented at national level.
- **Engagement of experts.** The authority noted above should engage experts (such as Finance Estonia, the Bank of Estonia, *Finantsinspektsioon*, the Ministry of Finance) to consult on evaluation criteria. In the case of a pan-Baltic approach, the label might be issued by a pan-Baltic Expert Committee comprising competent authorities.
- **Eligibility and criteria.** Eligible financial instruments for the EU Taxonomy-aligned (green) labelling programme should include bonds, shares, investment funds (including private equity, real estate), and pension assets. Financial services should include deposits, financing programmes of financial institutions, and programmes of insurance undertakings. The eligibility criteria would include the level of Taxonomy-alignment depending on the financial instrument or service.
- **Verification.** Feedback from issuers suggests that choosing to issue sustainable financial instruments incurs additional costs because they must hire an external reviewer, which can represent a significant expense, especially for smaller issuances. Consequently, smaller-scale issuers, unable to afford an external reviewer, end up issuing conventional financial instruments, despite the fact that the instruments they issue are sustainable by nature. In that light, implementation of a green label could be advantageous for these types of issuers – if obtaining a green label would be less costly than engaging an external reviewer which, in turn, would be less costly if state were to subsidise the issuance of the green label. Whether the sustainable finance instrument is compliant with the Taxonomy-aligned (green) labelling programme's requirements would be assessed in the green labelling issuance process without engaging an external reviewer.

EXPECTED RESULTS

- **Develop green products.** Developing and establishing an additional (regional) green labelling programme can stimulate development of green financial products and practices by companies operating in the region. This can contribute to the growth of sustainable industries and help address environmental challenges in the area. It can also help position the Baltic region as a leader in sustainable finance.
 - **Steer investors towards sustainability.** Assist investors in making informed decisions by identifying Taxonomy-aligned financial instruments and services.
- As a result, investors can minimise time spent on due diligence and promote transparency in financial markets. This can encourage investment in the region and support the growth of sustainable industries.
- **Access new investor pools.** Enhance the attractiveness of green financial instruments to both local and foreign investors. This may increase the competitiveness of these instruments and facilitate investment flows in the region. It can also contribute to economic growth, job creation, and establishment of sustainable practices in the Baltic region.

IMPLEMENTATION

Proposed steps

- Conduct market evaluation to determine interest by market participants in Estonia and the Baltics in implementing an additional (regional) green labelling programme
- Create a pan-Baltic committee comprising in state authorities and experts in the event of market demand (after evaluation) and when the programme is established on a pan-Baltic level
- Develop operational aspects of the green labelling programme, incl. eligibility and criteria
- Establish the green label and promotional activities, if applicable

Timeframe

- Short to long-term (starting from the second step - conducted upon a positive assessment by the market)



7. CONTROL ENVIRONMENT

- **Ensuring data quality for decision-making purposes.** The legislation concerning sustainability reporting (CSRD, SFDR and the EU Taxonomy) requires that significant new types and amounts of information and data will gradually become available to financial, non-financial and public sector stakeholders. Estonia is currently working on implementing the CSRD into national legislation and potential automation of data obtained from companies. In order to be able to efficiently use information obtained through company management reports, including for decision-making, control and policy planning purposes, it is essential to ensure a certain level of disclosure quality, reliability, and machine-readability.

APPROACH

- **Use of the European Single Access Point as a one-stop-shop directory.** The state needs to implement duties of Member States according to the European Single Access Point regulation (ESAP; agreed on within the political trilogue in June 2023) regarding the tasks of Collection bodies. As a result of all Member States adopting the regulation, it will become a one-stop-shop directory for all sustainability-related data deriving from CSRD-based reports. However, meanwhile (ESAP is expected to become operational by 2027) the state is encouraged to enable availability of reported sustainability data on the existing platform, namely the e-Business Register.
- **Integration of sustainability-related data into the section on annual reports in the e-Business Register.** Similar to financial data, which is entered into the register for further use, an add-on could be included in the system for the most significant ESG data points (e.g., Scope 1, 2, 3 emissions⁶, emission intensity, gender balance in companies). Initial work has already been done in this area, but data gaps will need to be addressed. Using the e-Business Register will make information easily collectable and usable in the future for broader analysis, e.g., sectoral trends. Additionally, the Estonian Centre of Registers and Information Systems will be able to check if the necessary information is submitted. Once the new sectoral European Sustainability Reporting Standards (ESRS) or ESRS for SMEs are adopted, the sectoral analysis may be reviewed and updated, if necessary.
- **Streamlining ESG data reporting.** Currently, various state institutions have different non-CSRD-related reporting requirements for companies operating in Estonia (e.g., regular reports on GHG emissions, pollution levels and mitigation activities, waste generated, number of employees per various categories). Now, some of these topics overlap with the CSRD. To avoid double reporting and discrepancies between data in different types of report, the institutions should identify opportunities for streamlining reporting. Initial work on data mapping has already started. Ideally, it should be ensured that the relevant institutions are able to extract the necessary information on specific topics from the CSRD reports (if possible – in an automated way). The state institutions may recommend certain sectors to treat specific CSRD topics as material and binding for them and therefore must report on those in their annual report. In the medium to long term, data mapping should be automated to the maximum possible extent (potentially using artificial intelligence tools, as companies may use slightly different wording and expressions in their management reports to disclose CSRD-related information). This approach is supported by stakeholders, e.g., business organisations, which suggests elimination of any double reporting.
- **Educating the market on best reporting practices.** The education opportunities and the Knowledge Hub noted in the first section of this Roadmap should include best-practice examples and recommendations on reporting to streamline practices across the market (including, e.g., data reporting and machine-readable reporting approaches). Initially, best-practice examples may be derived from the former Non-Financial Reporting Directive (NFRD) entities outside the Baltics (as they have a higher reporting maturity) and from existing tools such as the Taxonomy User Guide, gradually expanding practices to examples across the Baltic states. In this process, it is also essential to engage auditing firms to educate the market on assurance requirements, processes, and controls, which need to be in place so as to be able to obtain assurances for sustainability information. This may be done through the already established ESG working group of the Board of Auditors, which initially educates their peers, that, in turn, can then further educate the market. Also, it is essential to engage the financial sector and its regulator in best-practice communication as the sector is one of the primary users of the reports.
- **Monitoring of reporting development.** The Knowledge Hub noted in the first recommendation of this Roadmap would need to review and discuss reporting development in Estonia and, specifically, the most significant mistakes and drawbacks (at least for the first 3-5 years). As a result, the necessity for additional educational materials or sessions may be identified to increase the quality of reporting and its practical use.

⁶ Categories of direct and indirect emissions calculated in line with the GHG Protocol guidelines

- **Sustainable Investment Excellence Prize.** Following international experience, it is advisable to acknowledge and highlight sustainability efforts. A prize may be introduced and awarded annually to recognise an individual, organisation, or company, which has made sustainable and/or innovative progress towards sustainability. With the prize, the aim would be to highlight how the financial sector can contribute to transitioning towards sustainability through responsible investments. The proposed prize would target issuers, asset managers, investors, funds, research and/or educational institutions, associations, and individuals. To claim the prize, compliance with several criteria would need to be assessed as agreed by organisers. For example, those might be: (1) advancement of sustainability considerations within investments, investment products, or analysis; (2) innovative progress or particularly innovative initiatives or contributions towards sustainability; (3) promotion of collaboration/dialogue among different stakeholders; (4) measures that improve opportunities to align investment and sustainability considerations.

EXPECTED RESULTS

- **Access to data.** Through use of the European Single Access Point, e-Business Register functionality, and analysis of sectoral trends by Statistics Estonia and the Bank of Estonia, market participants will be able to access significant sustainability-related data, compare specific companies to sectoral averages in Estonia and other EU countries and use the data in order to achieve better decision-making.
- **Streamlined reporting practices.** Through consistent education, provision of best practice examples and communication of the requirements of the stakeholders (within the existing legal framework), reporting entities would develop a similar and reliable approach to ESG reporting.
- **Multiple uses of reported data.** Through data integration into the e-Business Register and revision of other state-defined reporting practices also covered by the CSRD, businesses will be relieved of double/multiple reporting requirements and the state will obtain reliable, assured data at sectoral level that may be used for further policy analysis and planning.
- **Encouraging transition towards sustainability.** The Sustainable Investment Excellence Prize would highlight how the financial sector can contribute to transitioning towards sustainability through responsible investments. The annual award of the prize would acknowledge and further pursue sustainability efforts.

IMPLEMENTATION

Proposed steps

- Implement duties of Member States according to the European Single Access Point Regulation
- Map the currently diverse reporting requirements of different state institutions with CSRD topics
- Define mandatory CSRD reporting topics for specific sectors, if applicable
- Develop e-Business Register add-ons for sustainability-related data, based on initial assessment and selected approach
- Automate data extraction and use for policymaking and decision-making
- Collect and provide best practices for reporting on the ESG Support Platform – complementing best practices with expert comments (e.g., comments by insurance experts or financial sector representatives engaged in the Advisory group of the Knowledge Hub)
- Review reporting quality and provide additional market education on most specific mistakes and drawbacks, if necessary (conducted by the Knowledge Hub)
- Award Sustainable Investment Excellence Prize

Timeframe

- Short to long-term

THE PUBLIC SECTOR AS A ROLE MODEL

government investment (procurement) practices. Energy, transport, water management, data transmission and other types of infrastructure are key to delivering public services and, at the same time, are major direct or indirect sources of GHG emissions and facilitate or, on the contrary, hinder citizens and businesses in making sustainable choices in their everyday lives. Therefore, state and municipal institutions and enterprises should adopt policy planning and implementation measures aimed at sustainable public investment and transition in the sectors mentioned above.

However, the public sector often lacks expertise in sustainability goals, the impact of public infrastructure on reaching those goals, and the role of public authorities and sustainable investment in facilitating that end. Policy planning often focuses on isolated, relatively short-term, and potentially contradictory measures that are tied to available funds, not to the desirable outcome at national and regional level. Outdated procurement practices prioritise cost over sustainability. To act as a role model, state and municipal institutions should take the initiative in prioritising sustainability across their actions.



8. ALIGNMENT WITH PUBLIC POLICY PLANNING AND IMPLEMENTATION

APPROACH

- **Sustainability considerations integrated across all public policy decisions.** The state should clearly communicate to all its institutions the UN Sustainable Development Goals (SDGs) and EU Green Deal goals applicable to Estonia. The government may carry out annual workshops on the applicable goals, the results of the previous period, and priorities for the future, as well as indicative information on sectors and policy areas which need to be considered most attentively. The aim of this activity is to ensure that state and municipal entities consider contributing to these goals when taking decisions on all policy initiatives.
- **Integration into draft decision annotations.** Annotation forms already in place for public sector draft decisions could be complemented with a "contribution to sustainability goals" reference. There, the institution submitting the draft decision or policy paper should explain how the decision would facilitate achievement of sustainability goals, how this will be achieved and with whom the author of the document has consulted to ensure that the decision is in line with the sustainability agenda.
- **Integrated solutions to major sectoral challenges.** For major sectoral challenges (e.g., energy sector development, transport sector transition plan), cross-sectoral cooperation should be facilitated by the government. Sectoral ministries, sector associations, and most significant private stakeholders, if appropriate, would need to find integrated solutions for sectoral challenges in line with the SDGs and Green Deal goals noted above. This approach may also be used when developing new multi-annual policy planning documents to avoid isolated, fragmented approaches and, instead, to develop an integrated vision.
- **Sustainability reporting extended to the public sector.** Although the CSRD and other sustainability reporting requirements or frameworks are primarily aimed at companies, public sector institutions may act to set an example by also preparing their own sustainability reports, highlighting their efforts and the impact of their decisions.

EXPECTED RESULTS

- **Increased awareness of the public sector on its role in sustainable development.** Access to more detailed information on sustainability goals and the necessity to consider and to describe the effect of each decision on those goals will make public sector officials consider these topics more thoroughly and integrate them into everyday decision-making.
- **Integrated approach to policy planning.** An integrated, cross-sectoral approach will enable the public sector to make use of various viewpoints and resources available across its sub-sectors (ministries). This may have a positive effect not only on sustainability-related decisions but also on other public sector decision-making.
- **Efficient use of limited resources.** In the long run, the integrated approach to policymaking may facilitate more efficient use of limited public funds through "economies of scale". For example, addressing sustainability through integrated development of transport, water management and energy infrastructure in one project may be more efficient than developing several separate projects.
- **Clear priorities for citizens and businesses.** Decision-making that is focused on sustainability goals, and clear communication of priorities to society, demonstrate what citizens and businesses are expected to do to facilitate achievement of defined goals.

IMPLEMENTATION

Proposed steps

- Promote awareness of SDGs and Green Deal goals and their impact on policymaking across the public sector
- Organise an annual update and deliver clear communication of the SDGs and Green Deal goals applicable to Estonia and their implementation status
- Update draft policy document annotations (at both government and municipal level)
- Strengthen integrated work towards cross-sectoral priorities aimed at achieving sustainability goals (working outside silos)
- Develop public sector sustainability reporting practices

Timeframe

- Short to long-term (with continuous implementation)



9. SUSTAINABLE STATE AND MUNICIPAL INVESTMENTS

- **Prioritisation of sustainable procurement practices.** Although public procurement regulations enable green, social and innovative procurements, in practice they are relatively rarely used, by keeping to the conventional “lowest price” or similar approaches instead. The state and municipalities have a crucial role in facilitating sustainability through investments in infrastructure and publicly significant activities. So it is essential to break the conventional approach and encourage institutions and SOEs to use sustainable procurement practices more often. That would also serve as an incentive for private sector companies to adopt sustainable business models and practices.

APPROACH

- **Sustainability and EU Taxonomy alignment.** Strategic procurement guidelines (to be developed with the support of the Technical Support Instrument of the European Commission and implemented in cooperation with the OECD starting from September 2023) should prioritise sustainability and EU Taxonomy alignment to facilitate competitiveness of market participants that are already sustainable, while encouraging SMEs to adopt sustainable practices to gain a competitive edge.
- **Development of sustainable procurement practices.** State and municipal institutions and companies are advised to amend their internal procurement procedures to consider ESG risks and ensure EU Taxonomy alignment in their procurement activities. They could also require their partners to comply with sustainability objectives and EU Taxonomy alignment and encourage use of ESG tools to identify risks related to selection of unsustainable suppliers.



Operations

- **Procurement Excellence Centre.** In order to support implementation of sustainable procurement policies and enable public institutions to procure sustainable products and services, the Procurement Excellence Centre under the existing procurement supervision function of the Ministry of Finance may be promoted.

However, it should be of a more consultative than controlling nature. The centre may provide expertise on sustainability and ESG issues in procurement to public institutions, which may lack the resources to hire in-house experts. The Government has already started discussions on establishing such a centre.

- **Best practice sharing.** The Procurement Excellence Centre may work in collaboration with other stakeholders, including private sector companies, civil society organisations, and academic institutions, to exchange best practices and knowledge of sustainable procurement. This would help build a wider community of best practices and promote adoption of sustainable procurement practices across different sectors and industries.

EXPECTED RESULTS

- **Sustainable infrastructure.** Through procurement policies developed with the support of the Procurement Excellence Centre in Estonia, state and municipal authorities would be encouraged to purchase more sustainable services and products. This would also incentivise companies participating in state or municipal procurements to adopt sustainable practices.
- **Encourage private companies.** With establishment of the Procurement Excellence Centre, public institutions lacking resources to hire sustainability and ESG experts would receive guidance and support to adopt sustainability-related procurement practices. By prioritising them, state and municipal institutions would also encourage private companies to act similarly and implement sustainable supplier selection, thus improving sustainability of the whole supply chain.

IMPLEMENTATION

Proposed steps

- Set up / promote a Procurement Excellence Centre in Estonia

Timeframe

- Medium-term

10. REGIONAL COOPERATION AND ALIGNMENT

APPROACH

- **Coordination of a pan-Baltic approach to sustainable finance.** Capital markets play a significant role in achievement of sustainability goals. However, taking into account the size of the market, it is crucial to streamline the approach to sustainable finance across the Baltic markets. It should also be acknowledged that many financial and non-financial sector companies are represented across all three countries – Estonia, Latvia, and Lithuania. Therefore, it is important to adopt a unified perspective on policy planning and implementation, sustainability interpretation, access to data, and other ESG aspects.
- **Information exchange on sustainable finance regulation.** All three countries have developed or are developing their Sustainable Finance Strategies. The responsible ministries should facilitate regular information exchange for all three countries to share information on the latest developments, challenges, and cooperation possibilities. The Baltic states should also use information exchange channels presented by other existing formats such as the OECD public procurement-related platform, and other opportunities.
- **Set up an *ad hoc* expert group at a pan-Baltic level.** Taking into account that several countries may face similar challenges or concerns with regard to sustainable finance implementation, the responsible ministries, if necessary, may set up an inter-governmental expert group aimed at discussing and finding integrated solutions to those challenges or concerns at a Pan-Baltic level. An example might be a streamlined regulatory approach to ESG risk assessment in the financial sector, as several banks and their clients operate across the Baltics and will expect a similar approach in all three countries.
- **Development of joint policies or solutions.** An advanced approach would be to implement joint projects, for example, development of a green labelling programme, ensuring operations of a pan-Baltic Knowledge Hub, or providing integrated education opportunities. Such initiatives might benefit all countries at once, create a streamlined environment for businesses, and facilitate more efficient use of resources for setup of certain initiatives.

EXPECTED RESULTS

- **Clarity and transparency across the region.** Implementation of similar sustainability-related approaches across the three Baltic states would create a clear and transparent business environment for financial and non-financial sector stakeholders that operate across the market.
- **Regionally streamlined EU policies.** From the EU perspective, a coordinated approach to interpretation and application of the EU Taxonomy, CSRD, SFDR, ESG risk assessments, sustainable investment and other sustainability-related legislation and guidelines would decrease differences and ease confusion around them.
- **Resource-efficient support tools and solutions for businesses.** Coordinated development of tools or solutions available to businesses across several countries (e.g., education opportunities or the Knowledge Hub noted above) would decrease the differences in investment environments and facilitate efficient use of available resources. This approach may be established by the expert group and approved in each particular case.

IMPLEMENTATION

Proposed steps

- Regular information exchange on sustainable finance developments within the existing cooperation framework for the Ministries of Finance set up by the pan-Baltic Memorandum of Understanding (2017)
- Create an expert group, depending on the topic, and the mandate to work on it at national level
- A pilot project on joint solutions (e.g., one Knowledge Hub platform with basic information applicable to all countries)

Timeframe

- Medium- to long-term, depending on necessity and agreement by the participating authorities

Figure 3 summarises key activities included in the ten policy recommendations described in this Roadmap. The activities are grouped according to the time span proposed for each of them.

Figure 3. Preliminary implementation timeframe of key activities of the Sustainable Finance Roadmap for Estonia

Short-term (1-12 months)	Medium-term (13-24 months)	Long-term (exceeding 24 months)
<ul style="list-style-type: none"> ■ Establishment of an expert cluster for the purpose of the Knowledge Hub 	<ul style="list-style-type: none"> ■ Launch of the ESG Support Platform 	<ul style="list-style-type: none"> ■ Development of guidelines, materials and methodologies for teaching sustainability and integrating it into existing programmes in universities
<ul style="list-style-type: none"> ■ Identification of data needs and challenges, and opportunities to solve them 	<ul style="list-style-type: none"> ■ Provide access to relevant data via Open Data Portal 	<ul style="list-style-type: none"> ■ Development and launch of a specialised Master level programme on sustainable finance
<ul style="list-style-type: none"> ■ Collection of information on sustainability-related education opportunities 	<ul style="list-style-type: none"> ■ Define mandatory CSRD reporting toics, if applicable for certain sectors 	<ul style="list-style-type: none"> ■ Development, adoption and publishing of a financial sector stewardship code
<ul style="list-style-type: none"> ■ Update of the Corporate Governance Code 	<ul style="list-style-type: none"> ■ Develop EDS add-ons for sustainability-related data and their further analysis 	<ul style="list-style-type: none"> ■ Adoption of a Public Sustainable Financial Instrument Issue Plan
<ul style="list-style-type: none"> ■ Promotion of use of sustainable finance instruments via the Financial Sector Development Plan 2024-2026 	<ul style="list-style-type: none"> ■ Preparation of public sector education plan 	<ul style="list-style-type: none"> ■ Establishment and launch of a green labeling programme (if acknowledged useful by the market)
<ul style="list-style-type: none"> ■ Development of financial sector approach on new EU Taxonomy-aligned loan products 	<ul style="list-style-type: none"> ■ Set-up of a training programme for non-financial sector companies 	<ul style="list-style-type: none"> ■ Implementation of European Single Access Point Regulation requirements
<ul style="list-style-type: none"> ■ Market evaluation on a potential green labelling programme 	<ul style="list-style-type: none"> ■ Update of guidelines for strategic objectives of the state-owned companies with more emphasis on sustainability targets 	
<ul style="list-style-type: none"> ■ Update of draft policy document annotations for the public sector to ensure policy making consistency with sustainability objectives 	<ul style="list-style-type: none"> ■ Target setting on the government level to implement sustainable finance instruments in the National Climate and Energy Plan 	
	<ul style="list-style-type: none"> ■ Promotion of a Procurement Excellence Centre to facilitate sustainable procurement practices 	

Source: KPMG Baltics and Eversheds Sutherland Bitāns, 2023

