

EU Taxonomy Implementation and Sustainable Finance Roadmap for Estonia and Latvia

Activity report of the Project



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1 Disclaimer

This report is prepared in accordance with the Consultancy Services Contract No. 2022.004694 between the EBRD and KPMG Baltics SIA on the “EU Taxonomy Implementation and Sustainable Finance Roadmap for Estonia and Latvia” project (further – Project) signed on 8 February 2022, and the Inception report of the Project (further – Inception report).

The Project was implemented by a Consortium consisting of sustainable finance, ESG and management consulting experts from KPMG Latvia, Estonia, Sweden and Finland, and legal and capital markets experts from Eversheds Sutherland (further – Consortium).

This report summarises the implementation of all activities included in the Inception report of the Project. The report or parts of it may be distributed to external stakeholders to increase awareness on the given topics, however, the use of this report needs to be discussed in the Steering Committee.

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Third party data used in writing in the reports that has been submitted to the Steering Committee throughout the Project, including, final deliverables “Sustainable finance roadmap for Estonia” and “Sustainable finance roadmap for Latvia” and this report has not been verified for credibility and consistency, unless noted otherwise in the report.

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2 Overview of the activities

The Project was structured into five workstreams, where workstreams II and III were organised in parallel to each other:

- I. **Kick-off and inception phase.** The aim of this phase was to develop a detailed action plan for further activities of the Project, introduce the stakeholders to the Project plan and get their buy-in for further engagement in interviews, case studies, workshops, and other activities as applicable;
- II. **Assessment of investment needs per key economic sectors.** The aim of this phase was to identify the sectors most affected by climate change and related regulation, and assess ESG readiness of companies representing those sectors, including their capability for transition and implementation of the EU Taxonomy. In addition, this phase was aimed at identifying potential investment projects for sustainable development and analyse their implementation requirements.
- III. **Diagnostic of the domestic sustainable finance landscape.** The aim of this phase was to identify both facilitators and barriers in the regulatory environment framing the approach to sustainable finance, and to provide practical solutions to tackle several of the challenges, for example, motivation and readiness to use sustainable finance for business development.
- IV. **Development of the policy Recommendations and Sustainable Finance Roadmaps** for each country. The aim of this phase was to build upon the analysis conducted during the previous stages and to provide clear, structured, practical and balanced policy recommendations as a roadmap for further development of sustainable finance in each country.
- V. **Awareness raising campaign targeting officials and businesses in both countries.** The aim of this phase was to increase public and private stakeholders' awareness of sustainable finance and economic transition and provide information materials that facilitate medium- and long-term effects of the Project through an ongoing use of the information developed within the Project.

The following sections describe the activities implemented to achieve the objectives for each of the phases mentioned above.

2.1 Kick-off and inception phase

In the beginning of this phase, the Inception report was developed detailing the initial proposal of the Consortium and serving as a work plan throughout the Project. All references to the activities mentioned in the following sections of this Report, are linked to the activity sequence and numbering in the Inception report.

In addition to the Inception report, activities No. I.2 and I.3 were implemented in this phase of the Project.

The Project was kicked off at the first Steering Committee (further – SC) meeting - held on 9 March 2022 and aimed at discussing the expectations of the Project beneficiaries and organisation of the kick-off conference for stakeholders.

The kick-off conference took place online on 6 April 2022, with representatives from both Estonian and Latvian governmental institutions, professional associations, and financial and non-financial sector companies. Before the kick-off conference, the participants were asked to fill in a kick-off survey to gather opinions of the attendees regarding sustainable economic development, sustainable finance, and the related regulations. The results of the survey, together with the main takeaways from the conference, were summarised in the Kick-off conference report.

Deliverables of this phase:	<ul style="list-style-type: none">- Inception report- Kick-off conference report- Results of the survey as part of the Kick-off conference report
Steering committees where the deliverables were discussed:	SC No. 1 (09.03.2022.); No.2 (17.03.2022.); No.3 (31.03.2022.); No. 4 (28.04.2022.)

2.2 Assessment of investment needs per key economic sectors

In this phase of the Project, activities No. II.1; II.2; II.3; II.4; II.5; II.6 and II.7 were implemented. The first part of the phase was dedicated to desk research and “as is” analysis of:

- Key economic sectors;
- Their mapping against the EU Taxonomy and Sustainable Development Goals (SDG) principles;
- Analysis of the availability and quality of ESG data with regards to the identified sectors;
- Analysis of relevant ESG disclosure standards.

The results of the research were gathered and proposed to the SC for discussion in the "Assessment of investment needs per key economic sectors. Interim report No.1" (part of the Assessment Report submitted at a later stage of the Project).

In the second half of the phase, the Consortium interviewed companies representing the priority sectors defined before, to gather their opinions and better understand their views of sustainable finance, green investment and the sustainability challenges companies face. The questions for the semi-structured interviews were submitted to the SC and approved beforehand.

On 17 June 2022, the Consortium organised an extended stakeholder meeting in Tallinn to discuss the first results of the desk research and interviews. The meeting was

attended by the EBRD and Project beneficiaries (in person), and DG REFORM and external stakeholders from financial sector companies (online).

After the extended stakeholder meeting, the Consortium continued with the “to be” analysis of this phase to determine data gaps and investment gaps by key economic sectors. The outcome of this task was the analysis of key investment needs for diverse sectors, including potential means of financing. The results served as the basis for case studies further developed and discussed in the Thematic workshops.

The results of all activities mentioned above have been submitted to the SC in the “Barriers to Sustainable Finance. Interim Report No. 1” (part of the Gap Analysis Report submitted at a later stage).

In February 2023 (Riga on February 16th and 17th and then in Tallinn on February 20th and 21st), five workshops were organised to discuss ESG requirements, market readiness and the potential support financial and non-financial sector companies might need. The first workshop was organised online for the Estonian and Latvian financial sector representatives together, and it took place on 7 February. It was followed by four on-site workshops in Estonia and Latvia focusing on non-financial sector companies – large enterprises, as well as small and medium sized companies. The participants of the workshops were introduced to 2 generic roadmaps for ESG reporting readiness and investment planning in line with the EU Taxonomy, and 10 specific case studies on Estonian and Latvian sectors and/or companies.

The outcomes of the workshops were summarised in the Workshop report and submitted together with the Case study report to the SC.

Deliverables of this phase:	<ul style="list-style-type: none"> - Assessment Report - Gap Analysis Report - Workshop report - Case study report
Steering committees where the deliverables were discussed:	SC No.5 (12.05.2022.); No.6 (31.05.2022.); No.7 (09.06.2022.); No.8 on-site in Tallin (17.06.2022.); No.9 (20.07.2022.), No.10 (18.08.2022.); No.11 (14.09.2022.); No.12. on-site in Riga (07.10.2022.); No.13 (08.11.2022.); No.14 (08.12.2022.); No.15 (19.01.2023.); No.16 (23.03.2023.)

2.3 Diagnostic of the domestic sustainable finance landscape

In this phase of the Project, activities No. III.1; III.2 and III.3 were implemented. As this phase of the Project was organised in parallel to the Assessment of investment needs per key economic sectors phase, many activities overlapped and were discussed in the same SC meetings.

The activities in this phase consisted of an in-depth analysis of existing regulatory and legal environment in Estonia and Latvia and the review of any potential obstacles for sustainable investment. As a result, it was concluded that there are no legal barriers

preventing either financial or non-financial companies investing more sustainably, however, there are intangible barriers, such as lack of sufficient motivation or fear from balancing sustainability targets with prudential requirements. These intangible barriers were analysed in detail, and recommendations proposed to overcome them.

Additionally, the Consortium analysed the roles and responsibilities of investors and investees with regards to sustainable investing and assessed the potential for introduction of green labelling in sustainable finance – potentially, on a Pan-Baltic scale.

To supplement desk research of this phase of the Project, the Consortium organised several surveys for the investors and non-financial sector companies, as well as a separate meeting with Estonian and Latvian law enforcers to raise their awareness on challenges of sustainable investing from a legal point of view and to discuss their viewpoint on the matter.

Deliverables of this phase:	- Assessment Report
Steering committees where the deliverables were discussed:	SC No.5 (12.05.2022.); No.6 (31.05.2022.); No.7 (09.06.2022); No.8 on-site in Tallin (17.06.2022.); No.9 (20.07.2022.), No.10 (18.08.2022.); No.11 (14.09.2022.); No.12. on-site in Riga (07.10.2022.); No.13 (08.11.2022.); No.14 (08.12.2022.); No.15 (19.01.2023.); No.16 (23.03.2023.)

2.4 Development of the policy Recommendations and Sustainable Finance Roadmaps

In this phase of the Project, activities No. IV.1 and IV.2 were implemented. The Consortium based its work on the research results obtained during the previous phases, and developed a concise material (Sustainable Finance Roadmap) on key policy recommendations for Estonia and Latvia respectively.

The material consists of four types of recommendations aimed at:

- Raising awareness of businesses, the public sector and the general public on sustainable development and sustainable finance as a means to achieve sustainability targets;
- Empowering and encouraging market participants to use sustainable finance for their businesses, which entails certain preparatory activities and strategic guidance at top management level of the companies;
- Overcoming data shortage and clarity on traits defining “green” (or sustainable) finance, as well as ensuring increasing quality of companies’ ESG reporting practices;
- Encouraging the public sector to play a leading role in sustainability efforts through its own investments, policy planning and implementation work and inter-governmental cooperation.

The recommendations are slightly different for Estonia and Latvia, however, they are aligned as much as possible as it was intended in the beginning of the Project and postulated in the Inception report.

One of the key recommendations is to set up a Knowledge Hub in each country consisting of government and non-governmental experts. The aim of the Hub would be to provide guidance to the businesses on sustainable finance, ESG regulations and their practical implementation, at the same time serving as a feedback loop on ESG matters and regulations for policy makers. One of the key tools of the Knowledge Hub would be an online ESG Support Platform for businesses.

The recommendations are primarily addressed to the policy making authorities (such as the Ministries of Climate, Ministries of Finance, central banks or financial regulators of both countries), however, they entail broader engagement of stakeholders across sectors. The developed recommendations have been reviewed and discussed with the stakeholders during dedicated educational workshops in July 2023 (see the next section). Overall, the recommendations were supported by the stakeholders who also expressed their readiness and willingness to contribute to their implementation.

Additional consultations on the recommendations were conducted prior to as well as after the workshops – for example, consultations with the State Chancellery of Latvia, repeated calls with the Project beneficiaries to discuss their comments and viewpoints, etc.

Deliverables of this phase:	<ul style="list-style-type: none"> - Sustainable Finance Roadmap for Estonia (supplement with a concept paper on ESG Support Platform) - Sustainable Finance Roadmap for Latvia (supplement with a concept paper on ESG Support Platform)
Steering committees where the deliverables were discussed:	SC No.17 (02.05.2023.); No.18 (24.05.2023); No.19 (14.06.2023.); No. 20 (26.06.2023.)

2.5 Awareness raising campaign targeting officials and businesses in both countries

This table contains overview of the awareness raising activities the Consortium has organised throughout the Project.

No.	Activity	Audience
1.	Kick-off survey (Conducted through MS Forms, distributed on 25.03.2022.)	State institutions, Professional associations, Financial and non-financial sector

		companies
2.	Kick-off conference (Held on 06.04.2022., MS Teams)	State institutions, Professional associations, Financial and non- financial sector companies
3.	Stakeholder meeting (Held on 17.06.2022., on-site in Tallin and MS Teams)	SC members Professional associations, Financial sector companies
4.	Surveys about habits and understanding of ESG factors (Conducted through MS Forms, distributed on 21.09.2022.)	Large companies
5.	Meeting with law enforcement institutions (Held on 27.09.2022., MS Teams)	Representatives from different judicial institutions
6.	Interviews with companies (Held from September to December 2022)	Financial and non- financial sector companies
7.	Investor survey for Estonian retail investors (Published on Äripäev, see: https://www.aripaev.ee/sisuturundus/2022/12/05/uuring-kas-olete-valmis-toetama-kestlikkust-kapitaliturgudel , published 05.12.2022.)	Retail investors in Estonia
8.	Investor survey for Latvian retail investors (Published on site Investoru Klubs, see: https://www.investoruklubs.lv/satura-marketings/2022/12/05/aptauja-vai-esat-gatavi-atbalstit-ilgtspejibu-kapitala-tirgos , published 05.12.2022.)	Retail investors in Latvia
8.	Case study workshop for the financial sector (Held on 07.02.2023., MS Teams)	SC members Professional finance sector associations, Financial sector companies

9.	<p>Stakeholder survey about their knowledge regarding EU Taxonomy implementation and sustainable finance in Latvia (Conducted through MS Forms, distributed in cooperation with the Employers' Confederation of Latvia and Latvian Chamber of Commerce and Industry on January and February 2023)</p>	Financial and non-financial sector companies
10.	<p>Stakeholder survey about their knowledge regarding EU Taxonomy implementation and sustainable finance in Estonia (Conducted through MS Forms, sent out in January and February 2023)</p>	Financial and non-financial sector companies
11.	<p>Case study workshop for large companies in Latvia (Held on 16.02.2023., on-site in Riga)</p>	State institutions, Professional associations, Large non-financial sector companies
12.	<p>Case study workshop for small and medium sized companies in Latvia (Held on 17.02.2023., on-site in Riga)</p>	State institutions, Professional associations, Small and medium sized non-financial sector companies
13.	<p>Case study workshop for large companies in Estonia (Held on 20.02.2023., on-site in Tallinn)</p>	State institutions, Professional associations, Large non-financial sector companies
14.	<p>Case study workshop for small and medium sized companies in Estonia (Held on 21.02.2023., on-site in Tallinn)</p>	State institutions, Professional associations, Small and medium sized non-financial sector companies
15.	<p>Bank of Latvia ESG breakfast (Held on 14.03.2023., on-site in Riga, press release: https://www.bank.lv/en/news-and-events/news-and-articles/press-releases/16402-latvijas-banka-introduces-sustainability-aspects-of-supervision-to-financial-sector-representatives)</p>	Professional finance sector associations, Financial sector companies, investment funds

16.	<p>Project materials prepared for publishing (Sent to SC for their use on 31.03.2022., translated into Estonian and Latvian in April 2023. Published on the website of the Ministry of Finance of Latvia on 23.05.2023., see: ES taksonomijas ieviešana un ilgtspējīgu finanšu ceļakartes izveide Finanšu ministrija (fm.gov.lv))</p>	For general public
17.	<p>Final educational workshop for companies in Latvia (Held on 13.07.2023., on-site in Riga and via MS Teams)</p>	State institutions, Professional associations, Financial and non-financial sector Companies
18.	<p>Final educational workshop for companies in Estonia (Held on 14.07.2023., on-site in Tallinn and via MS Teams)</p>	State institutions, Professional associations, Financial and non-financial sector companies
19.	<p>Feedback survey for the final workshops (Conducted through MS Forms, distributed on 19.07.2023.)</p>	Final workshop participants

3 Key takeaways

During the Project, the Consortium constantly gathered feedback from the SC members, stakeholders and companies participating in the Project activities described in the previous sections. In this chapter, the main takeaways have been collected for further use in similar projects.

Taking into account the scope and subject of the Project, one of the main challenges from the beginning was to adjust the activities and related communication about sustainable finance in Estonia and Latvia to ensure that it is understandable to companies not yet well versed in ESG topics as well as appealing and supportive to those which are already looking for more sophisticated solutions and information.

Especially at the beginning of the Project, it was evident that the financial sector was much more educated and more interested in discussing the topics, such as sustainable finance, the EU Taxonomy, sustainability reporting, etc. In contrast, few of the non-financial sector companies were equally knowledgeable. However, during the Project, the Consortium has observed that the companies which have been actively following and participating in the workshops and other activities have increased their understanding of the topic.

As key best practices employed during this Project, the Consortium emphasises:

- **Visualised real-life examples (case studies) to promote better understanding.** For the Case study workshops in February 2023, the Consortium made visualisations for each case study to be discussed in these workshops. At the on-site workshops, participants were encouraged before the event and during the coffee break to get acquainted to these visualisations and consider the cases from the perspective of their companies - how they prepare themselves for the sustainability reporting and plan their future investments. Many participants admitted after the workshops that these visualisations helped them better understand the ESG requirements, as well as allowed them to reflect on their company practises. These case study visualisations are also a good material for further educating general public, and can be published on the stakeholders' websites.
- **Short and frequent discussions with Project's stakeholders.** To better understand the level of awareness and expectations of the Project's stakeholders outside the SC, and to address their concerns in the final deliverables, the Consortium frequently used short surveys and informal discussions as a means for gathering diverse inputs and opinions. That helped reach stakeholders and gather expert opinions - including informal feedback which, among other things, helped the Consortium fine-tune the final policy recommendations. The surveys and discussions were also instrumental in preparing for the February case study workshops.
- **Interim reviews and flexibility.** Although the Inception report defined several key deliverables, the SC agreed on more frequent check-ins and interim deliverables, which allowed to adjust the next activities flexibly and efficiently plan activities on

parallel workstreams. The flexible timeline and realistic estimations on how much time would be needed to complete tasks, as well as proactive communication with SC members, allowed the Consortium to conduct additional activities that were not included in the Inception report but were beneficial for the quality of the Project's outcomes (e.g., additional surveys and meetings with stakeholders). The flexible timeline also allowed time for individual meetings with Estonian and Latvian SC members to discuss country-specific questions.

To suggest a few improvements for implementation of similar projects, the Consortium recommends to:

- Establish strict deadlines on submission of key stakeholders' comments to the Project reports, survey questions, and other materials (especially materials intended to be distributed to external stakeholders). That would serve as a mitigation measure for conflicting deadlines and last minute adjustments;
- In case of multi-national projects, it is advisable to clearly define the common and separate (country-specific) priorities from the very beginning of the project and manage those expectations throughout the project in order to ensure smooth progress.

As a conclusion, the Consortium thinks the Project is a relevant showcase for other EU countries which also need to implement ESG regulations such as the EU Taxonomy, the Corporate Sustainability Reporting Directive (CSRD), the Sustainable Finance Disclosure Regulation (SFDR) and other requirements, as well as facilitate uptake of sustainable finance and investment.

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