



Ministry of Finance
Republic of Latvia



REPUBLIC OF ESTONIA
MINISTRY OF CLIMATE



EVERSHEDS
SUTHERLAND

SUSTAINABLE FINANCE ROADMAP FOR LATVIA

2023



The Project is carried out with funding by the European Union via the Technical Support Instrument (TSI) and in cooperation with the European Commission's Directorate-General for Structural Reform Support (DG REFORM) and implemented by the Ministry of Climate of Estonia and the Ministry of Finance of Latvia, in cooperation with the European Commission's DG REFORM and the EBRD.



European Bank
for Reconstruction and Development

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 use of sustainable financial and capital market products and enabling greater sustainable economic development in Latvia.

The recommendations are based on sustainability-related regulations stemming from the EU Action Plan for Sustainable Finance adopted in 2018, 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 acts, which provide a classification system for distinguishing environmentally sustainable economic activities in line with the EU Green Deal commitments and other policy planning documents outlining the EU’s ambition in achieving 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) which requires asset managers to assess their investees’ environmental, social, and governance (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, accurate information and data.



The Corporate Sustainability Reporting Directive (CSRD) 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 which need to deliver annual mandatory information on their sustainability performance, and to define detailed requirements for delivering this information (through European Sustainability Reporting Standards). 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 regarding those companies and sectors.

Apart from the regulations mentioned above, additional regulatory acts or guidelines outline detailed requirements on ESG risk assessment for banks, conducting ESG due diligence on companies’ suppliers, and so on.

The policy recommendations included in this Roadmap are based on detailed analysis of the level of awareness among Latvian companies on the regulations noted above and their meaningful implementation, thus facilitating greater sustainable development of the economy through sustainable finance. These recommendations are prepared by the Project team and based on the team’s 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, adopt policy planning or regulatory documents based on these recommendations and their content.

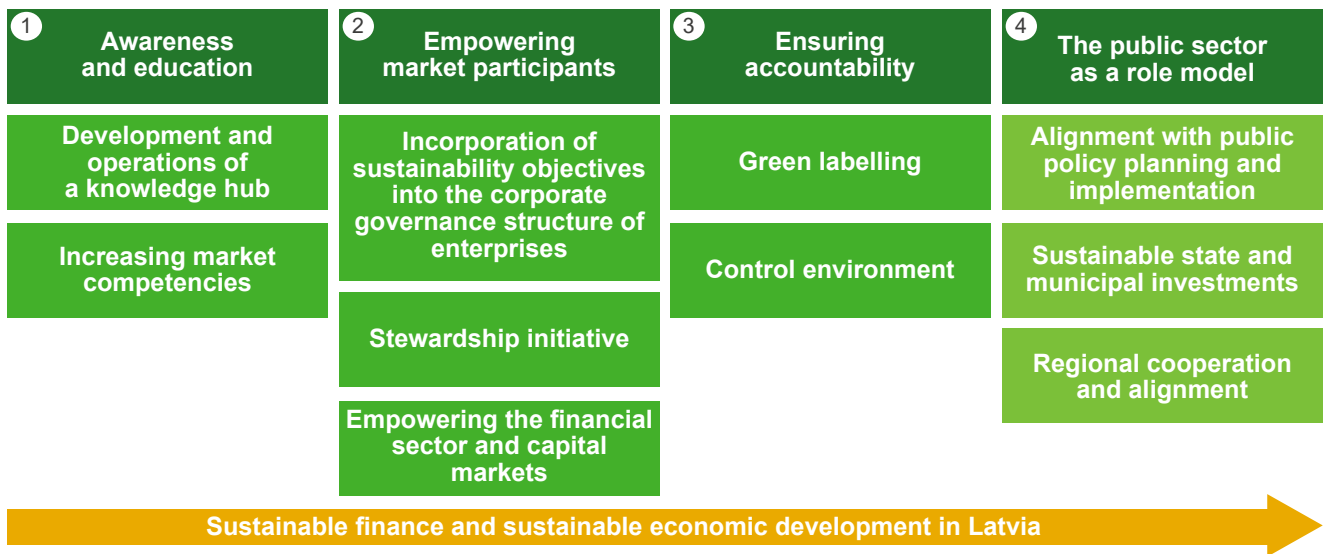
The general objective of these recommendations is to facilitate sustainable economic development and resilience across sectors and encourage uptake of sustainable finance in Latvia.

For any inquiries on the Project and this Roadmap, please contact Imants Tiesnieks, Chief Expert of the Financial Market Policy Department, Ministry of Finance (imants.tiesnieks@fm.gov.lv).

Structure of the Roadmap

The following document consists of four main sections and relevant policy recommendations as depicted in Figure 1. Where possible, policy making authorities should use EU funds or other financial sources to develop and launch the activities included in this Sustainable Finance Roadmap.

Figure 1. Overview of the Sustainable Finance Roadmap for Latvia

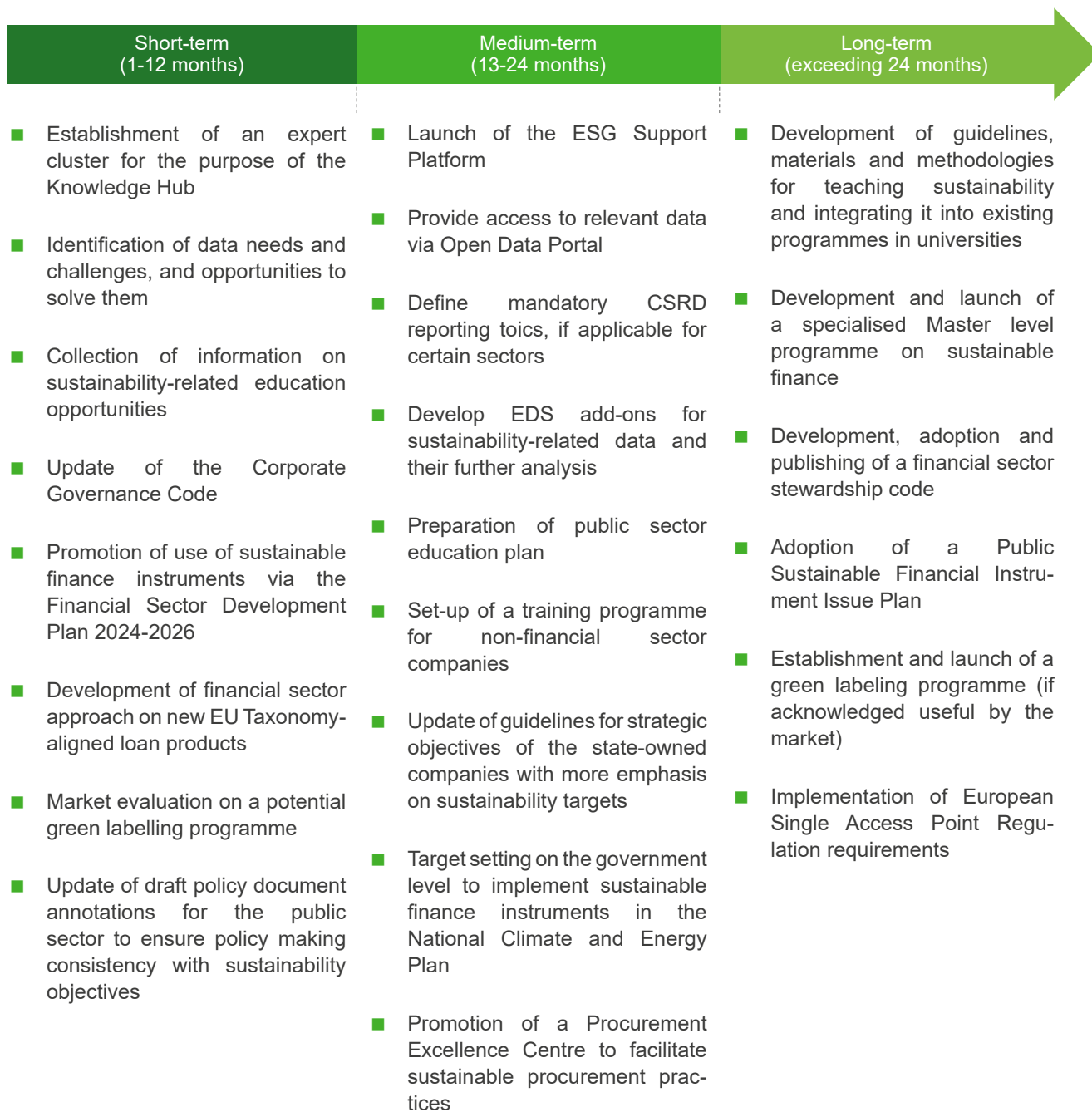


Source: KPMG Baltics and Eversheds Sutherland Bitāns, 2023



The activities described in the following sections are intended to be implemented in the short term (1-12 months), medium term (13-24 months), or long-term (exceeding 24 months). A summary of the key activities is depicted in Figure 2.

Figure 2. Preliminary implementation timeframe of key activities of the Sustainable Finance Roadmap for Latvia



Source: KPMG Baltics and Eversheds Sutherland Bitāns, 2023

AWARENESS AND EDUCATION

In order to implement sustainable finance effectively and to use it for 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 (SMEs), 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 provide support to both financial and non-financial sector companies in finding relevant information, seeking guidance, and obtaining practical advice. In addition, diverse education programmes and activities need to be facilitated, especially during the first years of EU Taxonomy and CSRD implementation. This would increase overall awareness on the part of businesses and professionals on sustainable development, regulatory requirements and their practical application, as well as facilitate experience-sharing among stakeholders.



1. DEVELOPMENT AND OPERATION OF A KNOWLEDGE HUB

APPROACH

■ **Establishment of a Knowledge Hub.** Under the auspices of the Ministry of Finance, a cluster-based Knowledge Hub should be set up comprising public- and private-sector participants, as well as non-governmental sector experts already specialising in sustainable finance and related areas. The Hub will be able to provide collective knowledge to the market, showcase best practice, interpret regulatory requirements and seek solutions for emerging issues related to implementation of sustainable finance in practice. The Knowledge Hub should serve as a single point of entry for access to information on the EU Taxonomy, sustainable finance, sustainable, social and green financial products, 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, the Hub should serve as a channel for information exchange with policy-making and implementing authorities on deficiencies in the sustainability-related regulatory environment and enforcement of regulations.

- **Resource.** The Knowledge Hub should function as a resource for 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 research, data, and other resources for evaluating ESG performance by financial products and their issuers.
- **Support.** The Knowledge Hub should provide guidance to stakeholders 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, and the like. 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 the regulations, their interpretation, guidance, methodological advice, useful datasets and other resources as applicable. It would function as a central repository of up-to-date, unbiased, quality information, simultaneously addressing the issue of general information overflow and lack of reliable information on sustainability issues. The ESG Support Platform should be open, flexible for updates and based on positive user experience to achieve the result of increasing competencies and contribute to educating the market. The preliminary structure of the ESG Support Platform is depicted in Figure 3.



Figure 3. Preliminary 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 will cooperate with financial and non-financial sector companies to promote the use and acceptance of sustainable development and sustainable financial products. This may involve partnering with diverse stakeholders to develop educational materials, awareness campaigns, and other initiatives that highlight the benefits and importance of sustainable finance, as well as maintain regular communication on the benefits that sustainable finance brings. Awareness raising is especially significant for small and medium-sized companies not directly affected by the sustainability regulations. For them, efficient risk management in the face of emerging risks (such as climate change impact on businesses) and access to financing and further development of their company should stand at the forefront of sustainability discussions.

■ **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 national objectives in terms of wider use of green financial instruments, as well as compliance with disclosure requirements. However, the most significant challenge remains the remarkably high level of fragmentation among institutions which hold relevant sustainability-related data. Datasets 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 diverse types of fuel), water consumption, composition of vehicle fleets per sector and type of fuel, waste management and actual recycling of materials, greenhouse gas (GHG) emissions across sectors, and the like. The Knowledge Hub will follow up on deficiencies in access to this data and allocate responsibilities for filling gaps. The National Open Data portal at the Ministry of Environmental Protection and Regional Development is a potential facility for providing access to data as it already holds part of the information outlined by stakeholders. The Knowledge Hub and co-operation between ministries and the financial sector would help in addressing the need for data availability (data format, data collection and transfer, potential limitations, sectoral analysis and other needs). In addition to data, companies need in-depth analysis on, e.g., quantitative climate change modelling, climate risk assessment and potential trajectories specific for the Baltic region, transition planning approaches, sectoral risks, and supply chain data proxies. Gradually, the Knowledge Hub would need to provide access to this information, enabling the companies to develop their action plans on the basis of locally recognised and approved data and

methodologies. In the future, the Knowledge Hub should also collect and make available information on upcoming sustainability topics such as biodiversity, circularity, social and governance aspects which are currently somewhat less prominent than climate change but which need to be addressed with similar rigour under the regulations noted above.

■ **Sustainable finance information day.** Within the framework of the Knowledge Hub, Latvijas Banka (the Bank of Latvia), together with the Ministry of Finance, and, when applicable, other stakeholders such as the Finance Latvia Association, should hold an information session for relevant market participants at least twice a year (later – may be organised on an annual basis). These sessions will be used to inform market participants about the latest updates in the Sustainable Finance Framework in the EU, and its implementation at national level, in order to maintain the level of awareness and ensure application of the most recent approaches to sustainable finance and investing. The information should be complemented with practical roadmaps, where necessary and possible, for both financial sector as well as non-financial sector companies. The roadmaps would outline key steps that companies should take in order to comply with regulatory requirements or exploit sustainable finance (for example, similar to materials developed for stakeholders of the project “EU Taxonomy Implementation and Sustainable Finance Roadmap for Estonia and Latvia”, available here: <https://www.fm.gov.lv/lv/media/14163/download?attachment>).

GOVERNANCE AND MAINTENANCE

■ **Cluster-based structure.** The Knowledge Hub will consist in decentralised cluster-type non-binding cooperation, which builds on the present functions and knowledge of policy making institutions (Ministry of Finance, Latvijas Banka, sectoral ministries, State Revenue Service, and other institutions), development finance institutions (Altum), non-governmental and professional stakeholders (Baltic Institute of Corporate Governance, NASDAQ, Finance Latvia Association, the Employers’ Confederation of Latvia, the Latvian Chamber of Commerce and Industry, and others), the private sector, and other bodies and individual experts as applicable. Contribution and engagement are based on voluntary principles, but at the same time stakeholders must together ensure that financial and non-financial sector companies get sufficient access to the information and support needed to implement sustainable finance principles and other related requirements. The cluster is based on the “cooperation, not competition” principle, ensuring a common approach to market education.

- **Maintenance of information.** Regular maintenance and updates are essential to ensure that the information provided by the Knowledge Hub remains up-to-date. The Ministry of Finance should assume primary responsibility for coordinating updates to the ESG Support Platform and other information resources or platforms provided by the Knowledge Hub. To ensure inclusion of latest trends and up-to-date information, it is recommended that expert meetings are conducted at least on a quarterly basis and responsibility for updating the information is clearly allocated and followed-up on.

Two-way communication. The Knowledge Hub should enable two-way communication – on the one hand, it should become the single point of entry for businesses searching for reliable information on sustainable development, relevant regulations, and their implementation. On the other hand, it should also serve as an experience exchange platform for sustainability experts and a feedback loop for policy makers 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 sustainable finance landscape in Latvia.** Sustainable finance and sustainable economic development are open to interpretation, and currently insufficient experience is lacking in terms of actual application of the new regulations. The Knowledge Hub will set the grounds for expert discussions and identification of commonly accepted implementation approaches which can further be promoted among financial and non-financial sector companies.
- **Provide guidance:**
 - To financial intermediaries, which have knowledge about financial products and services but may not necessarily have extensive expertise or a clear approach to sustainability and ESG-related matters. Establishment of the Knowledge Hub will provide a valuable resource for financial intermediaries seeking to support their clients' sustainability efforts. The Knowledge Hub can offer guidance, support, and resources on sustainable finance, ESG criteria, and related topics, allowing the financial sector to better serve its clients;
 - To non-financial sector companies, which face the challenge of EU Taxonomy and ESG reporting obligations and 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 would get direct access not only to regulatory provisions, but also to guidance on how to comply with them, including useful external resources, methodologies, and data.
- **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 pathways to sustainability.

IMPLEMENTATION

Steps needed

- Establish the expert cluster and plan its operations
- Develop version 1.0 of the Knowledge Hub (ESG Support Platform)
- Launch the ESG Support Platform
- Identify data needs, existing data sources and data holders, as well as relevant data that is currently unavailable and will need to be gathered separately
- Provide access to data, potentially in the Open Data Portal

Timeframe

- Short to medium-term

Responsible Authority



Ministry of Finance
Republic of Latvia

Co-Responsible Authorities

- Latvijas Banka
- Ministry of Environmental Protection and Regional Development
- Ministry of Climate and Energy
- Ministry of Economics
- Other ministries as applicable
- State Chancellery
- Data holders – AS Sadales tīkls, AS Gaso, the State Land Register, the State Construction Control Bureau, the Road Traffic Safety Directorate, municipalities, utilities companies and others



2. INCREASING MARKET COMPETENCIES

APPROACH

■ Facilitation of education opportunities.

Complementing 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 education opportunities on sustainability and use of sustainable finance provided by the private sector and support formal education efforts towards enhancing overall knowledge of private and public sector institutions, companies and professionals on sustainability-related matters. One of the key principles for education of all target audiences noted below should be encouragement to look beyond one's silo – regardless, if it is a public official who is required to think more systemically or a professional who needs to understand how sustainability principles feed into their primary field or domain.



Target audiences and format

■ **Integrated approach.** For successful implementation of the EU Taxonomy and uptake in sustainable finance, it is essential that private sector companies are aware of the requirements and their actual impact on businesses. Professionals working for those companies must be sufficiently knowledgeable and skilled to ensure compliance with regulations and meaningful implementation of sustainability principles. The public sector, in turn, should set and implement sectoral policies, through incentives and/or sanctions encouraging companies to make sustainable investments and introduce sustainable business practices. Accordingly, three types of educational activities are encouraged, and, if necessary, should be specifically set up:

- Programmes aimed at enhancing policy makers' understanding of sustainability challenges, the role of sustainable finance, and the impact that the public sector may have on uptake of sustainable finance across sectors. These programmes should also cover the broader sustainability context, challenges and opportunities. The Latvian School of Public Administration should take responsibility for developing programmes, ensuring quality and attendance of representatives, using external service providers where necessary, e.g., for content creation. In parallel, the State Chancellery is already working on development of a two-hour introductory lecture for public sector officials on sustainable development, and the Ministry of Climate and Energy is developing an e-training

programme for municipalities on climate change. Those universities providing programmes for education of public sector officials should also include a module, subject or separate topics on sustainable development in their curricula to enhance overall knowledge of the topic;

- 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. Here, existing training opportunities may be used to increase business awareness and understanding of these topics, such as those provided by: Latvijas Banka (e.g., Sustainability Breakfast sessions and specific training programmes, materials developed for market education on SFDR disclosures and other topics, potential materials developed under the Flagship Technical Support Project on the ESG risk management framework and others), NASDAQ (training sessions for listed companies), the Baltic Institute for Corporate Governance (Board Member education programme which increasingly includes sustainability related topics), the Chamber of Commerce and Industry (the recently launched Baltic Impact Accelerator programme), information exchange opportunities provided by the Finance Latvia Association, discussion sessions on corporate governance organised by the Ministry of Justice and various training programmes offered by private sector companies. The role of private-sector initiatives is highly significant. Additionally, information on sustainability-related international education programmes should be shared to encourage the market to increase knowledge and skills. In order to kick-start integration of sustainability aspects in company strategy-setting and operations, especially among small and medium-sized companies, a dedicated education programme may be launched by the Investment and Development Agency of Latvia – similar to the innovation training and other education programmes it already provides;
- Gradual integration of sustainability-related matters should be encouraged in formal education to increase awareness of the fundamentals of sustainable economic development among professionals entering the job market in fields of business administration, economics,

financial management, law, communication and marketing, quality management, public administration, data analysis and others. Sustainable development would gradually become an everyday business practice in companies, rather than a separate investment or compliance related issue. In addition, specialised programmes may be developed to increase availability of financial experts knowledgeable in sustainability and sustainable finance. These should be joint programmes or courses with universities from other countries to obtain relevant education, such as master's degrees or courses in exchange programmes with countries having more developed sustainability education. For example, the BA School of Business and Finance could establish a Sustainable Finance programme for future financial experts who may work for financial or non-financial sector companies – using cooperation possibilities with other universities outside Latvia. Sustainability training programmes/courses may be introduced in state co-funded programmes such as Support for training on internationally recognised open online course platforms by the State Employment Agency of Latvia, or Education for adults by the State Education Development Agency.

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 the use of sustainable finance.

Availability of knowledgeable experts in the market. Currently, a shortage exists of experts who would be 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 into formal education pathways will increase the inflow of experts into the market, enable companies to transform their business models and operations, and implement regulatory requirements more efficiently.



IMPLEMENTATION

Steps needed

- 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 action plan for the public sector
- Set up a training programme for non-financial sector companies (by the Investment and Development Agency of Latvia – if necessary, in addition to existing training opportunities)
- Develop guidelines, materials, and methodologies for teaching sustainability and integrating it into existing programmes in universities
- Develop and launch a specialised Master's level programme on sustainable finance (if applicable)

Timeframe

- Medium to long-term

Responsible Authorities



Ministry of Finance
Republic of Latvia



Ministry of
Education and Science
Republic of Latvia



Ministry of
Climate and Energy
Republic of Latvia



State Chancellery
Republic of Latvia

Co-Responsible Authorities

- Latvian School of Public Administration
- Latvijas Banka
- Investment and Development Agency of Latvia
- Latvian Employers Confederation
- Latvian Chamber of Commerce and Industry
- Finance Latvia Association
- Other sectoral/business associations as applicable
- Universities



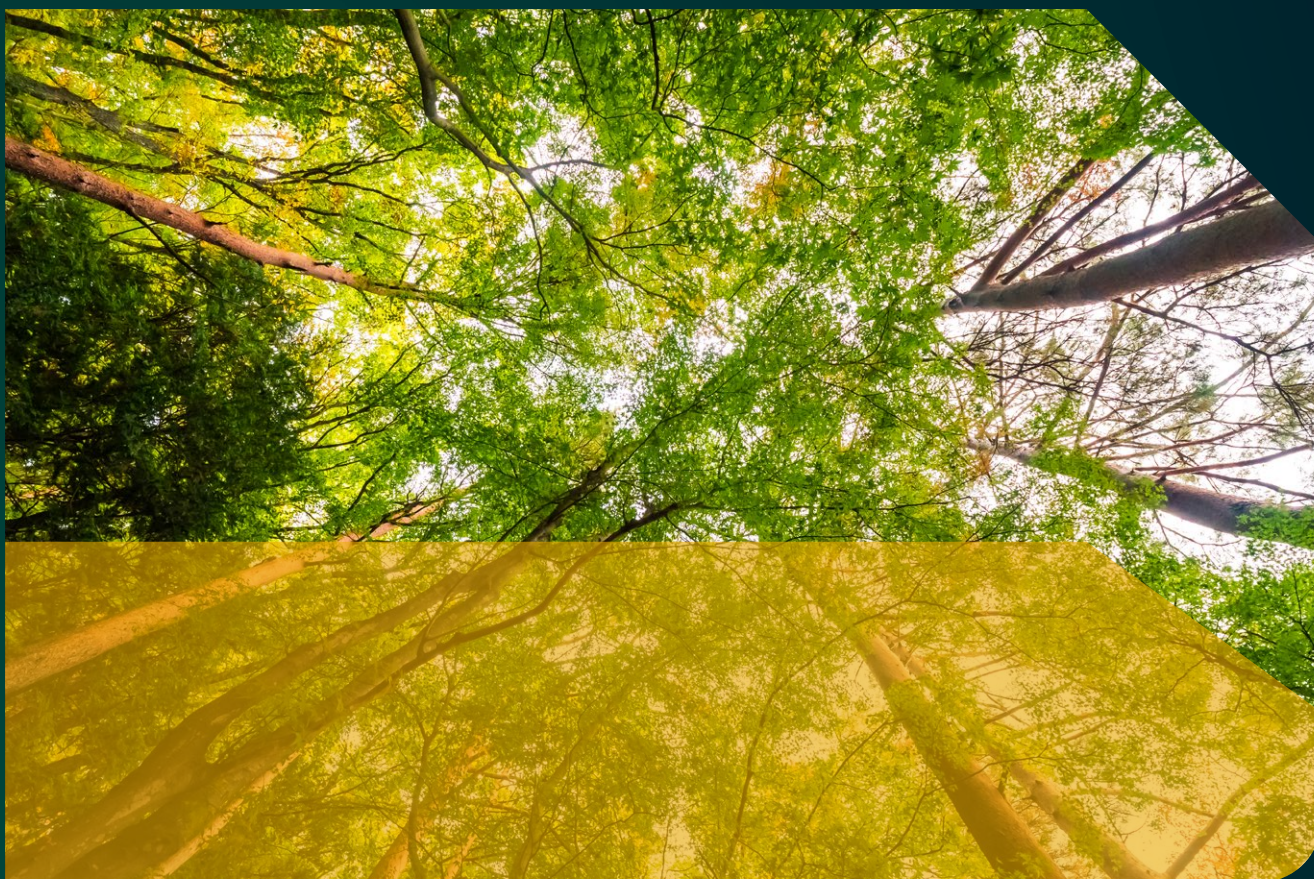
EMPOWERING MARKET PARTICIPANTS

Fiduciary duty, a widely used and binding term 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 of profit maximisation with long-term sustainability goals. Pursuing sustainability can involve higher risks, and lower profit, for which company management may be held responsible. This means that, to prioritise sustainability and limit the potential liability of management board members it is crucial to integrate sustainability objectives into the company's strategy.

From another perspective, some sustainability enquiries by the financial sector are causing 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.

Capital and financial markets in Latvia are less liquid and less developed compared with larger economies. While some examples exist of enterprises, including state-owned enterprises, accessing capital markets and benefitting from them, generally most companies are reluctant to obtain financing from capital markets and thus are not enjoying the benefits. This means that, state policy should be developed so as to allow and facilitate enterprises – including state and municipal owned enterprises – to use capital markets as a source of financing.

Although several green bonds have been issued within the Latvian 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 these products and make use of them.



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

APPROACH



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

- **Adoption of a sustainability strategy.** Companies should create a comprehensive sustainability strategy that considers ESG issues that are most relevant to their operations and integrate ESG issues into overall company business strategies. In this way, companies would ensure that sustainability objectives are aligned with long-term value creation.
- **Fostering green borrowing for SOEs.** Sustainable borrowing should be developed for SOEs along with a plan to facilitate it. Annual increase targets for sustainable borrowing and sustainable debt instruments, including sustainable bonds should be communicated to SOEs by means of shareholder letters of expectation issued to company boards. Sustainable borrowing policy will support development of the Latvian capital market by providing local investment opportunities to institutional investors. 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.
- **Creation of a sustainability committee.** Large and medium-sized enterprises should establish a sustainability committee made up of both internal, and, where possible, external stakeholders with expertise in sustainability and environmental issues. At the same time, each company should at least appoint a person at management level who is responsible for overall sustainability efforts in the company.
- **Stakeholder engagement.** Companies should engage 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.



State and municipality owned enterprises

- **Letter of expectations.** Shareholders (i.e., ministries or municipalities) should 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.** The management board should align short- and medium-term strategies with the letter of expectations, considering sustainability objectives as an integral part of company objectives. Although the board has discretion to prepare the strategy, emphasising sustainability is crucial.
- **Fulfilment of sustainability objectives.** The shareholders' meeting should be notified on annual basis of the strategies adopted and fulfilment of sustainability objectives. This will ensure that shareholders are aware of the company's 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 to their sustainability strategy and governance, and state and municipal authorities include sustainability objectives for decision-making process within their letters of expectations. This ensures that company management will be able to define their sustainability approaches, use sustainable and green financial products and services to implement them, and pay proper heed to ESG factors in their everyday decision-making.

IMPLEMENTATION

Steps needed

- Update the Corporate Governance Code (also in line with the expected updates in OECD guidelines prioritising ESG of enterprise governance)
- Update “Guidelines for determining state participation in overall strategic objectives” (regarding SOEs) to require state owned enterprises to incorporate sustainability objectives and medium and long-term strategy into letters of expectations

Timeframe

- Short to medium-term

Responsible Authorities



Ministry of Justice
Republic of Latvia



State Chancellery
Republic of Latvia

Co-Responsible Authorities

- State Chancellery
- Baltic Institute for Corporate Governance



4. STEWARDSHIP INITIATIVES

APPROACH

- **Common understanding.** Credit institutions and other financial market participants should 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 will prescribe standardised best practices for financial institutions and clients to reach a common understanding of sustainability-related matters. The stewardship code should be developed with a bottom-up approach by industry representatives. However, it is crucial for them to actively involve and collaborate with regulatory authorities throughout the development process.



Harmonisation of understanding and expectations

- **Unified approach for clients.** The code should outline a common approach for obtaining information from clients and investees with a 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 should 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 should outline best practices for green financing within the stewardship code, including their goals and objectives for the 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.



Contents and objectives

- **Contents.** The stewardship code should 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, (4) ESG risks, and the like. Throughout the development process, these sections may require further modifications in order to better reflect the needs of clients and industry representatives and fast developing regulatory requirements.

- **Level of Taxonomy alignment.** The financial sector, together with the regulatory authorities should 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.
- **Adjusted borrower-based measures, e.g., for energy-efficient buildings.** Several macroprudential instruments have already been implemented in Latvia. These instruments include borrower-based measures, e.g., loan-to-value ratio of 90%, debt-service-to-income ratio of 40% and debt-to-income ratio of six times. To encourage sustainable investments, Latvijas Banka could introduce targeted adjustments to borrower-based measures for energy-efficient housing loans. Banks would, in any scenario, have to continue complying with the requirements established by the regulatory framework at national and the EU levels. This approach could enable banks to better align their sustainability objectives within the existing prudential framework and facilitate a structural shift in demand for more sustainable housing.

EXPECTED RESULTS

- **Common approach towards clients.** Developing a stewardship code in collaboration with the regulatory authorities and the financial sector means establishing a recommended framework to ensure that financial market participants employ similar approaches towards their clients with regards to their sustainability efforts and their impact on financing / investment decisions. The code may be binding or non-binding as agreed among stakeholders.
- **Aligning sustainability objectives with prudential requirements.** Developing a stewardship code, in collaboration with the regulatory authorities and financial sector participants, 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.

IMPLEMENTATION

Steps needed

- Set up a working group 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

Responsible Authority



(limited engagement, taking into account the Bank's regulatory role)

Co-Responsible Authorities

- Ministry of Finance
- Finance Latvia Association



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 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.** Latvians Banka reviews a prospectus free of charge for issuance of both traditional and sustainable financial instruments. If in the future, a fee for review of a prospectus is introduced, it should be beneficial to waive it for prospectuses for sustainable financial instruments. Nasdaq Riga and Nasdaq CSD should explore other potential measures, including the possibility of considering 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 to the existing approach before implementing any changes.
- **Streamlining information.** To encourage potential issuers to issue sustainable financial instruments, Latvijas Banka should engage in developing of materials on sustainability in capital markets, including best practice, and publish the materials on its website and the ESG Support Platform. Materials should include a guide that outlines 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 should offer 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 range of green products eligible for such financing, such as, electric vehicles, installation of solar parks or other alternative energy sources, energy efficiency improvements in residential or industrial buildings, and so on. The financial sector should also more thoroughly assess sustainable projects submitted for financing by large enterprises, which are considerably more complex.
- **2nd Pension Pillar.** As of 2023, the Law on State Funded Pensions requires funded pension scheme asset managers to disclose in their investment

plan prospectus the investment policy applicable to financial instruments in Latvia. It is advisable to require asset managers to disclose sustainable investments and EU Taxonomy-aligned investments in Latvia and elsewhere in their investment policy. This measure will allow participants in the 2nd pension pillar to choose investment plans that invest sustainably, if they prefer this type of investment.



State and municipal institutions and companies

- **Tapping into capital markets.** Building on the informative report issued by the Ministry of Finance “On the further development of the Latvian capital market”, of 16 May 2023, state and municipal owned enterprises should be encouraged to tap into capital markets, by, e.g., issuing green bonds. In addition to stimulating activity in capital markets, the issuance of green bonds could also contribute to the overall growth and development of the Latvian economy.
- **Public Sustainable Financial Instrument Issue Plan.** The Ministry of Finance, together with the Ministry for Climate and Energy and the State Chancellery, should develop, and the Cabinet of Ministers adopt, a Public Sustainable Financial Instrument Issue Plan, covering state authorities, municipalities, and state and municipal owned enterprises. The plan should build upon the informative report on the Latvian capital market, and thus be interlinked with the objectives the report outlines. The plan may also be developed as a designated part of the National Climate and Energy Plan.
- **Objectives of the plan.** The plan should set a gradual objective that in the long-term, 50% of all financing attracted by the state (in the broader sense) from capital markets be obtained through the issuance of sustainable financial instruments. The plan should also set out detailed objectives about instrument types, including the planned proportion of green, sustainable, social, and sustainability-linked financial instruments. Annual reports should be provided to the Cabinet of Ministers concerning the progress made in implementing the plan.
- **Provision of support.** The Ministry of Finance, together with Latvijas Banka and the State Treasury, should provide consultations on implementation of the Public Sustainable Financial Instrument Issue Plan to state and municipal institutions, and companies which are less aware of capital markets and sustainable financial instruments.

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, and new sustainable technologies. More investment options should be available for society and 2nd pension pillar managers as state and municipal owned enterprises tap into capital markets.
- **Sustainable pension investments.** Requiring disclosure of investment policies for sustainable investments and Taxonomy-aligned investments will encourage funded pension scheme asset managers to consider and prioritise sustainable investment practices. Providing participants with the option to choose investment plans that align with sustainable investment principles empowers them to exercise a direct impact on promoting sustainability and responsible investing in the 2nd pension pillar.
- **Sustainable capital markets.** Adoption of the Public Sustainable Financial Instrument Issue Plan, which mandates that in the long-term 50% of the state's capital market financing be sourced through sustainable financial instruments, will lead to increased sustainability within capital markets. Furthermore, the state will be compelled to direct funds obtained from these sustainable financial instruments toward investments in more sustainable projects, ensuring proper use of proceeds.

IMPLEMENTATION

Steps needed

- Incorporate activities aimed at promoting use of sustainable finance instruments in the draft Financial Sector Development Plan 2024-2026 (implemented by the Ministry of Finance)
- Adopt Public Sustainable Financial Instrument Issue Plan (potentially as a designated section of the National Climate and Energy plan) – by the Cabinet of Ministers
- Publish a detailed guide that outlines the step-by-step process for preparing and issuing sustainable financial instruments and the distinctions between sustainable and traditional financial instruments (implemented by Latvijas Banka)
- Set targets for sectoral policies to implement sustainable financial instruments in the National Climate and Energy Plan (implemented by the Ministry of Climate and Energy, the Ministry of Environmental Protection and Regional Development, and other sectoral ministries)
- Develop an approach to foster new EU Taxonomy-aligned loan products following demand from clients (implemented by Latvijas Banka)

Timeframe

- Short to long-term

Responsible Authorities



Ministry of Finance
Republic of Latvia



Ministry of Environmental
Protection and Regional
Development
Republic of Latvia



Ministry of
Climate and Energy
Republic of Latvia



(limited engagement)

Co-Responsible Authorities

- Sectoral ministries
- State Chancellery
- Finance Latvia Association

ENSURING ACCOUNTABILITY

A priority is to ensure accountability for sustainability-related information, provided by financial intermediaries or non-financial sector companies, and establishing a Green Labelling programme might be one of the steps. 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, e.g., 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 the SFDR and Benchmarks Regulation. Consequently, a new green label in the Baltics should be established if it offers more advantages than currently existing labels.
- **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 evaluation of its possible institutional structure and whether it should be implemented locally or on a pan-Baltic scale. If the assessment yields positive results, a potential approach for the institutional and practical set-up of the programmes is presented below. This approach does not require establishment of new authorities to develop and initiate the programme's operations.



Proposed set-up

- **Common approach and a competent authority.** The Baltic states should consider establishing an EU Taxonomy-aligned (green) labelling programme for all types of financial products and programmes. The competent authority regarding green labels awarded to financial instruments and services should be a state authority, similar to (or the same as) the competent authority for issuance of the EU Ecolabel in each Baltic state. If the determination is made that a pan-Baltic approach is unnecessary, the programme would be implemented at a local level.
- **Engagement of experts.** The authority noted above should engage experts (e.g., the Finance Latvia Association, Latvijas Banka) to consult on evaluation

criteria. In the case of a pan-Baltic approach, the label should be issued by a pan-Baltic Expert Committee comprising competent authorities. Latvijas Banka's involvement would be limited to providing expert opinions. Issuance of the green label would be determined solely by the relevant competent authority, without any direct involvement from Latvijas Banka, which due to potential conflict of interest cannot be directly engaged in awarding labels (in almost all cases the label would be awarded to a financial market participant under the direct supervision of Latvijas Banka).

- **Eligibility and criteria.** Eligible financial instruments for the EU Taxonomy-aligned (green) labelling programme should include, e.g., bonds, shares, investment funds (including private equity, and real estate), as well as 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.

EXPECTED RESULTS

- **Development of green products.** Development and establishment of a green labelling programme can stimulate development of green financial products and practices by companies established 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. By doing so, 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 to establishing sustainable practices in the Baltic region.

IMPLEMENTATION

Steps needed

- Conduct a market evaluation to determine interest of market participants in the Baltics and Latvia regarding implementation of a green labelling programme
- Create a pan-Baltic committee comprising in state authorities and experts if market demand exists, and if the programme is established on a pan-Baltic basis
- 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)

Responsible Authority



Ministry of Finance
Republic of Latvia

Co-Responsible Authorities

- Environment State Bureau
- Latvijas Banka (limited engagement, due to the Bank's regulatory role)



7. CONTROL ENVIRONMENT

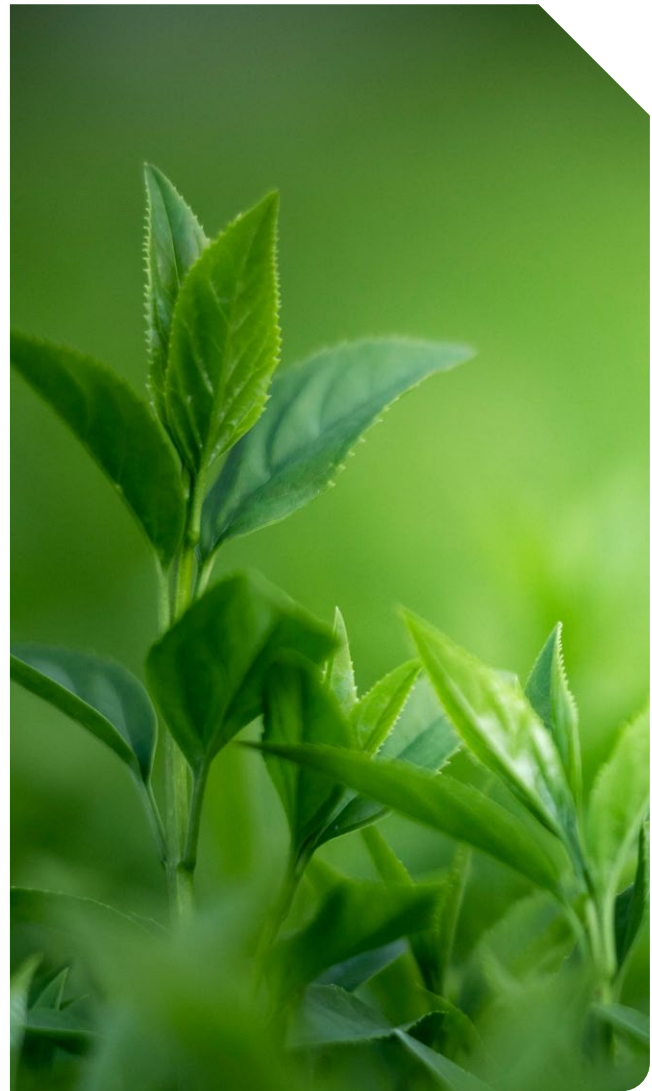
APPROACH

- **Review of sustainability-related information and further use of data.** The regulations on sustainability reporting (CSRD, SFDR and the EU Taxonomy) require that significant new types and amounts of information and data will gradually become available to financial, non-financial and public sector stakeholders. In order to be able to efficiently use this information, including for control and policy planning purposes, it is essential to ensure that all entities required to report do so in a similar way, reflect information so that it is machine-readable, assured by a statutory auditor or audit firm, and reliable. In order to ensure the integrity of the sustainability information provided by entities, it is necessary to enhance the role of audit committees which need to monitor assurance of annual and consolidated sustainability reporting and inform company administrative or supervisory bodies of the outcome of the assurance and internal company quality controls.
- **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 political dialogue in June 2023) regarding the tasks of Collection bodies (Latvijas Banka, the State Revenue Service). As a result of all Member States adopting the regulation, it should become a data repository and 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 should enable availability of reported sustainability data on the existing platform, the Electronic Declaration System.
- **Integration of sustainability-related data into the section on annual reports in the Electronic Declaration System (EDS).** Similar to financial data, which is entered into the Electronic Declaration System for further use, an add-on should be included in the system for the most significant ESG data points (e.g., Scope 1, 2, 3 emissions, emissions intensity, gender balance in the company). Using EDS, information will be easily collectable and usable in the future for broader analysis, e.g., sectoral trends. Also, the State Revenue Service will be able to ensure whether the necessary information is duly submitted. Once the new sectoral European Sustainability Reporting Standards (ESRS) or ESRS for SMEs are adopted, the sectoral analysis should be reviewed and updated, if necessary. Reporting, extraction, and analysis of data should be automated as much as possible to decrease administrative burden for both public sector officials and reporting entities (companies).
- **Integration with other ESG data reporting needs.** Currently, various state institutions – such as the Environment State Bureau, the Central Statistics Bureau, the State Revenue Service and others – maintain different non-CSRD-related reporting requirements for companies operating in Latvia (e.g., regular reports on GHG emissions, pollution levels and mitigation activities, generated waste, 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. Ideally, it should be ensured that the relevant institutions are able to extract the necessary information on specific topics from the CSRD reports. If applicable, the state institutions may require certain sectors to treat specific CSRD topics as bindingly material for them and therefore included in an annual report.
- **Educating the market on best reporting practices.** The Knowledge Hub noted in the first section of this Roadmap should collect and provide best-practice examples and recommendations on reporting in line with the CSRD and the EU Taxonomy in order to streamline practices across the market (including, e.g., data reporting, machine-readable reporting approaches). Initially, best practice examples may be derived from 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 statutory auditors or audit firms to educate market participants and members of their audit committees as to assurance requirements, processes and controls which need to be in place in order to be able to obtain assurance for sustainability information. Additionally, it is essential to engage the financial sector and its regulator in providing best-practice examples – as the sector is one of the primary users of the reports and needs the market to have a certain level of understanding and a streamlined approach to reporting.

- **Monitoring of reporting development.** The Knowledge Hub noted in the first recommendation of this Roadmap needs to review and discuss reporting development in Latvia and, specifically, the most significant mistakes and drawbacks, at least once a year (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.

EXPECTED RESULTS

- **Access to data.** Through use of the European Single Access Point, EDS functionality, and the State Revenue Service analysis on sectoral trends, market participants will be able to access significant sustainability-related data, compare specific companies to sectoral averages in Latvia and other EU countries and use the data for better decision-making.
- **Multiple uses of reported data.** Through data integration into EDS 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 would obtain reliable, assured data at sectoral level that may be used for further policy analysis and planning purposes.
- **Streamlined reporting practices.** Through consistent education and provision of best-practice examples, reporting entities would develop a similar and reliable approach to ESG reporting.



IMPLEMENTATION

Steps needed

- Implement duties of Member States according to the European Single Access Point Regulation
- Map the currently diverse reporting requirements of different state institutions with the CSRD topics
- Define mandatory CSRD reporting topics for specific sectors, if applicable
- Develop EDS add-ons for sustainability-related data
- Collect and provide best practices for reporting on the ESG Support Platform – complementing best practices with expert comments (e.g., comments by assurance experts, financial sector representatives)
- Review reporting quality and additional market education on most specific mistakes and drawbacks, if necessary (implemented by the Knowledge Hub)

Timeframe

- Short to long-term (some activities depend on ESAP development on the EU level)

Responsible Authority



Ministry of Finance
Republic of Latvia

Co-Responsible Authorities

- State Revenue Service
- Latvian Association of Sworn Auditors
- State institutions and agencies (e.g., Environment State Bureau)
- Latvijas Banka
- Finance Latvia Association

THE PUBLIC SECTOR AS A ROLE MODEL

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 making sustainable choices in their everyday lives. So, state and municipal institutions and enterprises should adopt policy planning and implementation measures that are aimed at sustainable investment and transition activities in the sectors mentioned above.

However, public sector officials have uneven levels of knowledge and expertise in sustainability, the role of public institutions in facilitating achievement of sustainability goals across different sectors, and the role of sustainable investment in achieving them. In order to become a role model, state and municipal institutions should take the initiative to prioritise sustainability in their actions and encourage use of integrated solutions for key challenges in sectors such as energy supply and energy mix, circularity, integration of social aspects in decision making, and other areas.



8. ALIGNMENT WITH PUBLIC POLICY PLANNING AND IMPLEMENTATION

APPROACH

- **Public sector education on the role of sustainable finance and investment in achieving the UN SDGs and EU Green Deal goals that are relevant for Latvia.** The State Chancellery together with the School of Public Administration should develop and provide training sessions and workshops to state and municipal entities. Training should cover the SDGs and EU Green Deal goals, determining the appropriate scope of goals in Latvia (the region), methods of determining target indicators and monitoring results. Workshops should focus on the role of sustainable finance and investment in achieving the specified scope of goals (through public as well as private investment), and the impact the public sector on adoption of policies that motivate businesses and citizens to make sustainable investments in areas related to the SDGs and Green Deal goals applicable to Latvia.
- **Integration into draft decision annotations.** For draft public sector decisions, the already existing annotation forms should be supplemented with an evidence-based statement “contribution to the achievement of the sustainability goals”. There, the institution submitting the draft decision or policy paper should explain how the decision would contribute to achievement of specific sustainability goals, how it will be achieved and measured, and whom (experts of the relevant field) the author of the document has consulted with to ensure that the decision is in line with the sustainability agenda. Taking into account that 169 targets are related to 17 SDGs, additional requirements for the annotations should be based on prioritised sustainability aspects – for example, (1) contribution to climate change mitigation (the impact of the decision on GHG emission reduction) or adaptation, (2) accessibility improvement (the impact of the decision on citizens’ access to certain services – either physically, e.g., through universal design or improved coverage of some public services, or in terms of affordability), and (3) contribution to circularity (the impact of the decision on enhancing reuse, refurbishment, recycling, regeneration, remanufacturing, and so on. of certain materials or products).
- **Strengthening an integrated approach to major sustainability challenges.** Integrated cross-sectoral approaches should be strengthened and enabled to tackle major sectoral challenges related to sustainability. These may include, e.g., energy sector development in 10-20 years, including market analysis on both demand and supply side, and the level of new capacities needed; transport sector transition

plan to more sustainable vehicles, fuels, investments in related R&D and supporting infrastructure; transition to circular business models going beyond responsible waste management; inclusion of social aspects in economic decision making, and the like. The State Chancellery has already done enormous work in setting up policy planning processes and encouraging cross-sectoral cooperation, which needs to be enhanced to achieve major goals in areas noted above. For that reason, the analytical capacity of state institutions and active stakeholder engagement strategies should be further strengthened.

EXPECTED RESULTS

- **Increased awareness of the public sector on its role in sustainable development.** Access to more detailed information on sustainability goals and the potential stimuli to achieve them (e.g., sustainable finance) will encourage public sector officials consider these topics more thoroughly and integrate them in everyday decision-making. Creation of a transparent mechanism of assessing and measuring the impact of sustainability-related actions will increase the ability of the public sector officials to put forth tangible, impactful measures and increase their accountability for the outcomes.
- **Integrated approach to policy planning.** Strengthening an integrated, cross-sectoral approach will enable the public sector to increasingly employ various viewpoints and resources available across its sub-sectors (ministries). This might have a positive effect not only on sustainability-related decisions but on other public sector decision-making processes as well.
- **Efficient use of limited resources.** In the long-run, the integrated approach to policy making 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, or addressing introduction of circularity across diverse sectors might be more efficient than developing several separate projects or activities.
- **Clear priorities for citizens and businesses.** Decision-making focused on relevant sustainability goals, and clear communication of evidence-based priorities to society, demonstrate what citizens and businesses are expected to do on their part to facilitate achievement of the defined goals.

IMPLEMENTATION

Steps needed

- Educate public sector officials on sustainability, scope of sustainable development goals in Latvia (and the region), sustainable development indicators and measurements, and sustainable finance
- Update draft policy document annotations (at both government and municipal level)
- Strengthen integrated cross-sectoral work aimed at achieving major sustainability goals

Timeframe

- Short-term (with continuous implementation)

Responsible Authority



State Chancellery
Republic of Latvia

Co-Responsible Authorities

- Ministry of Environmental Protection and Regional Development
- Ministry of Climate and Energy
- Ministry of Finance
- Other ministries according to the priority areas
- Municipalities



9. SUSTAINABLE STATE AND MUNICIPAL INVESTMENTS

APPROACH

- **Sustainability and EU Taxonomy alignment.** Strategic procurement guidelines at the “soft law” level should prioritise sustainability and EU Taxonomy alignment to facilitate competitiveness of market participants that are already sustainable. That should also encourage SMEs to adopt sustainable practices in order to gain a competitive edge in public procurements.
- **Development of procurement policies.** State and municipal institutions should amend their internal procurement policies to consider ESG risks and ensure EU Taxonomy alignment in their procurement activities. They should 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 auspices of the Procurement Supervision Office should be promoted (complementing the already active role of the Department on Implementation of Regulations). The centre should provide expertise on sustainability and ESG issues to public institutions that may lack the resources to hire in-house experts. At the same time, support by the Procurement Excellence Centre may be provided only insofar as it does not contradict, interfere, or create a conflict of interest with the primary functions of the Procurement Supervision Office, that is – enforcing compliance with procurement regulations. This means that, the level of expertise the Procurement Excellence Centre may be able to deliver is limited to coordinating methodological support and cannot extend to helping the procurement authorities develop procurement documents, specifications, or other such help.
- **Best practice-sharing.** The Procurement Excellence Centre should work in collaboration with other stakeholders, including private sector companies, civil society organisations, and academic institutions, to exchange best practices and knowledge on 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.** State and municipal authorities in Latvia based on their reviewed procurement policies would start to purchase more sustainable services and products. That will also incentivise companies participating in state or municipal procurements to adopt sustainable practices.
- **Encouraging private companies.** With the establishment of the Procurement Excellence Centre, public institutions lacking the resources to hire sustainability and ESG experts would receive the necessary methodological guidance to start procuring sustainable products and services. By prioritising sustainable procurement practices, state and municipal institutions will also encourage private companies to act similarly and implement sustainable supplier selection, thus improving sustainability along the whole supply chain.
- **Objective for green procurement.** In 2022, only 11.5% of the overall number of procurements in Latvia were categorised as green procurements. To encourage state and municipal institutions to apply green procurement principles, it is important to establish a target where, by 2030, a minimum of 20% of all procurements (alternatively – at least 20% of procurement value) should be classified as green procurements.



IMPLEMENTATION

Steps needed

- Set up / promote a Procurement Excellence Centre in Latvia
- One-fifth (or 20%) of all procurements conducted in Latvia (alternatively – procurement value) classified as green procurements

Timeframe

- Medium to long-term

Responsible Authority



Procurement
Monitoring Bureau
Republic of Latvia

Co-Responsible Authorities

- Ministry of Finance
- State and municipal authorities



10. REGIONAL COOPERATION AND ALIGNMENT

APPROACH

- **Coordination of a pan-Baltic approach to sustainable finance.** Capital markets play a significant role in achieving sustainability goals. However, taking into account the size of the market, it is crucial to streamline the approach to sustainable finance across the Baltic market. It should also be acknowledged that many financial and non-financial sector companies are represented across all three countries – Estonia, Latvia, and Lithuania. So, it is important to share 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 an information exchange platform (regular update meetings at least twice a year) for all three countries to share information on the latest developments, challenges and cooperation possibilities.
- **Setting-up an ad hoc expert group at pan-Baltic level.** Taking into account that several countries may face similar challenges or concerns with regard to sustainable finance implementation, the responsible ministries may set up an inter-governmental expert group aimed at discussing and finding integrated solutions to those challenges or concerns at Pan-Baltic level. An example might be a streamlined regulators' approach to ESG risk assessments in the financial sector, as several banks and their clients operate across the Baltics and might expect a similar approach in all three countries.
- **Setup of joint policies or solutions.** An advanced approach would be joint projects aimed at an integrated approach, e.g., to green labelling, operations of the Knowledge Hub, or 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 interpreting and applying the EU Taxonomy, CSRD, SFDR, ESG risk assessments, sustainable investment and other relevant sustainability-related regulations and guidelines will decrease differences and 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 Knowledge Hub noted above) would decrease differences in the investment environment and facilitate efficient use of available resources. This approach may be established by the expert group and approved in each particular case.



IMPLEMENTATION

Steps needed

- Agree on 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 specific topic requiring Pan-Baltic approach and coordination and the mandate to work on it at national level
- A pilot project on joint solutions, as applicable (e.g., a unified Knowledge Hub platform with basic information applicable to all countries)

Timeframe

- Short to medium-term

Responsible Authority



Ministry of Finance
Republic of Latvia

Co-Responsible Authorities

- Relevant ministries in the other two Baltic states according to the mandate
- Other state institutions in all three countries depending on topics and potential joint solutions



