

# THE EBRD IN ESTONIA



European Bank  
for Reconstruction and Development

## Results snapshot

#EBRDimpact

The European Bank for Reconstruction and Development (EBRD) has been active in Estonia since 1992 and invested more than €900 million in various sectors of the economy to date. In recent years, the Bank's strategic focus in Estonia has been on:

- ▶ advancing the green economy transition
- ▶ building a resilient and diversified financial sector.

The EBRD has also worked to promote a competitive private sector and knowledge economy. It has focused on policy reform, including in the fields of capital market development. Throughout the Covid-19 pandemic, the Bank supported Estonia's resilience and recovery, and it is currently providing support in response to the effects of Russia's war on Ukraine.

## EBRD results highlights for Estonia, 2017-23

### More renewable energy

The EBRD invested in the first pure-play renewable energy company in the Baltic countries, Enefit Green, financing the company's development of renewable energy projects in the Baltic countries and Poland. This is the first time an Estonian energy company had entered the Polish market with a view to developing a portfolio of solar photovoltaic (PV) assets

### Developing local capital markets

The EBRD acquired a stake in the Port of Tallinn through its initial public offering (IPO) on the Nasdaq Tallinn Stock Exchange. The IPO saw the partial privatisation of the major Baltic infrastructure company and played a crucial role in improving the liquidity and attractiveness of the Tallinn Stock Exchange and reintroducing the Baltic states to the global capital market.

### Capital market integration

The EBRD worked with the Baltic Ministries of Finance, the European Commission and Nasdaq Baltic to consolidate the Estonian, Latvian and Lithuanian markets with a view to creating a regional MSCI index. The new single index, incorporating the three markets, raises the profile of the Baltic region among international investors.

### New financial instruments

The EBRD invested in various sophisticated financial instruments to promote local capital markets. These included the first ever covered bond issued in the Baltic states, a bail-in senior preferred bond issued by LHV Bank and a senior bond issued by Luminor Bank.

The EBRD in Estonia\*  
Total 2017-23  
**€935 million**      **€320 million**  
Net cumulative investment

**110**      **30**  
Number of projects

**90%**  
Private-sector share of cumulative investment

**€165 million**      **€79 million**  
Green economy financing commitments

**32%**  
Equity share of portfolio

## Our policy engagement

- ▶ Green economy transition
- ▶ Knowledge economy
- ▶ Capital market development and secondary market liquidity
- ▶ Development of the pan-Baltic capital market
- ▶ Energy sector reform
- ▶ Financial sector regulation
- ▶ Renewable energy

[Read](#) the latest country strategy for Estonia



## Estonia in context

The Estonian economy continued to be in recession in 2023 but is showing signs of a slow recovery. Gross domestic product growth shrank by 3.5 per cent year on year in the first three quarters of 2023 after contracting by 0.5 per cent in 2022, owing largely to the fallout from the war on Ukraine. Persistent inflation has taken a toll on real wages, and hence private consumption, while investment has continued to decline. Exports and imports are both falling due to weaknesses in the economies of key trading partners, resulting in worsening employment in sectors such as industry and trade.

Inflation is falling. The inflation rate peaked at 25.2 per cent in August 2022 but has been on a downward trend since then, reaching 9.1 per cent 2023, largely thanks to reductions in food, housing and transport prices. A further drop in inflation is likely as uncertainty concerning the war on Ukraine continues to translate into slower demand. Food and energy prices are easing, but retail sales (excluding vehicles) have fallen, reflecting the impact of past price increases on household consumption. The labour market remains tight, with an employment rate approaching historically high levels, and unemployment at 6.1 per cent in November 2023. The country implemented several amendments to Employment Contracts Act and Occupational Health and Safety Act, and the government raised the national monthly minimum wage from €654 to €725 in the winter of 2023.



### Key economic indicators

	Estonia (2017)	Estonia (2023)*	OECD (2023)*
GDP per capita, PPP (constant 2017, international \$)	33,821	37,826	46,009
Unemployment, total (percentage of total labour force)	5.8	5.6	4.9

## Our approach and operational delivery

The EBRD supports the development of the private sector through a combination of investment, policy dialogue, technical assistance and business advice. We offer a range of financial instruments, both directly and indirectly through partner financial institutions. We provide business advisory services and technical assistance to help improve institutional capacity and enhance the competitiveness of our clients. In our policy engagement work, we address a range of factors to help shape initiatives that create favourable conditions for sustainable and inclusive economic growth.

In Estonia, we promote energy efficiency investments, particularly by industrial companies, while investments in renewable energy generation remain a top priority. We strive to improve the competitiveness of the export sector by fostering the use of advanced technologies, and invest in equities and funds to facilitate the further development of the small and medium-sized enterprise (SME) sector. Supporting cross-border investments by Estonian companies, particularly in the EBRD's regions, enables firms to establish a foothold in foreign markets and benefit from the efficiencies that access to larger markets brings.

Estonia is a supporter of the Eastern Europe Energy Efficiency and Environment Partnership Fund and, as such, has contributed to activities in Belarus, Ukraine, Georgia and Moldova.

\* Or latest available World Development Indicators.

We seek to help countries transition towards democratic and sustainable market economies. We finance projects that strengthen the private sector in economies undergoing transition to a well-functioning market system. Our investment decisions are guided by six "transition qualities", which focus on making economies competitive, well-governed, green, inclusive, resilient and integrated.

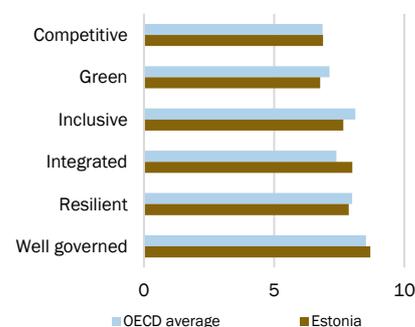


For more detail on our transition qualities visit [www.ebrd.com/qualities](http://www.ebrd.com/qualities)

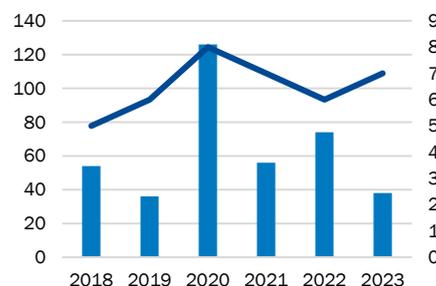


### EBRD score

(1 = worst, 10 = best)

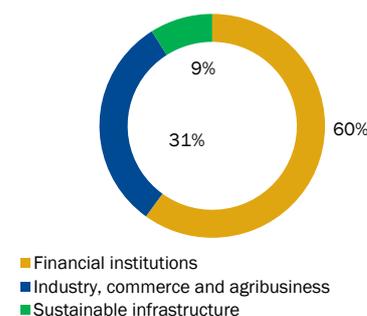


### EBRD investment in Estonia



— ABI reported rates (€ million)  
— Number of projects (right-hand axis)

### EBRD portfolio in Estonia



# The EBRD in ESTONIA



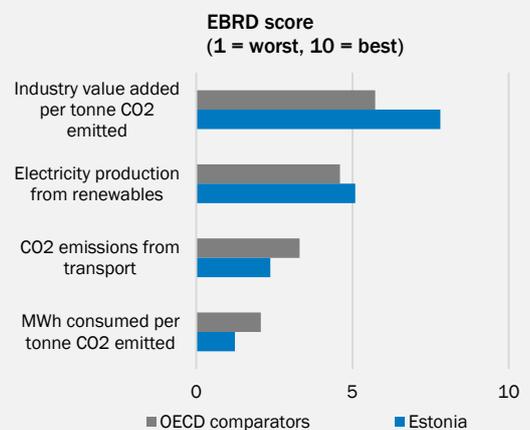
## Green economy transition

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### SDG contribution



Estonia's final energy carbon intensity is twice the EU average, mainly because of its reliance on oil shale for electricity production. The country relies on oil products for around 35 per cent of its final energy consumption, primarily due to its relatively large transport sector. Transport and the building stock account for most of the energy consumed by the country, with the residential, commercial and public services sectors (the built environment) accounting for about half of all energy consumption. Although generation from oil shale halved on the year in 2019 and is expected to decrease significantly in the coming years, it remains a major source of electricity in Estonia. This recent decrease has been offset by imports from the Nordic countries, as well as new renewable capacity.



### How we work

The EBRD is helping Estonia to build a green, low-carbon and resilient economy through investments, reforms and policy dialogue. Our approach takes into account the impact of Covid-19, Russia's war on Ukraine and the country's energy security, highlighting areas of opportunity to support a green recovery. SME adoption of green technologies is being supported by EBRD business advisory projects, mostly focused on energy and resource efficiency. We also promote investments in energy efficiency and renewable energy, particularly in industrial companies, as well as investments in renewable energy generation. These remain the EBRD's key priorities in Estonia.

### The EBRD in Estonia\*

Total	2017-23
<b>€165 million</b>	<b>€79 million</b>
<b>GET finance commitments</b>	

### EBRD quick links

► [Green Economy Transition](#)

The Green Economy Transition (GET) 2021-25 is the Bank's new approach to helping economies where the EBRD works build green, low-carbon and resilient economies. Through the new GET approach, the EBRD will increase green financing to more than 50 per cent of its annual business volume by 2025.



\*Last updated: January 2024

# EBRD achievements and results: Green economy transition in Estonia

## We promote sustainability by:

- ▶ investing in sustainability-focused companies, through the first locally managed private-equity real-estate fund with a green agenda in the EBRD regions (EfTEN Baltics Sustainable Property Fund)
- ▶ financing innovation and the expansion of agribusiness cooperatives, such as Scandagra, a company focused on organic seeds, grains, organic nutrients and other products certified for organic production.



## We promoted the green economy transition by:

- ▶ Participating in senior bonds issued by Luminor Bank to finance green projects in Estonia, in line with EBRD GET eligibility criteria.
- ▶ Investing in renewable energy companies, such as Enefit Green, the first listing of a pure-play renewable energy company in the Baltic states, and supporting Enefit Green's entry into Poland's solar market.
- ▶ Supporting the development of green energy in the Baltic countries and Poland by investing in Sunly AS, a leading renewable energy developer based in Estonia. The EBRD's investment enables Sunly to expand its renewable energy capacity in the region and invest in innovation green projects, achieving significant greenhouse gas (GHG) emission savings.



## Greater sustainability

The EBRD supported EfTEN Real Estate Fund IV, the first fund in the region to adopt climate priorities and green objectives as integral aspects of its operational mandate. In 2019, the Fund joined the GRESB, an organisation committed to assessing the environmental, social and governance (ESG) performance of real-estate assets globally. In 2021, the Fund ranked 11th on ESG performance among 210 funds in Europe.

## More renewable energy

The EBRD's investment in the first pure-play renewable energy company in the Baltic countries, Enefit Green, financed the company's development of renewable energy projects in the Baltic countries and Poland. This was the first time an Estonian company had entered the Polish energy market with a view to developing a portfolio of solar photovoltaic (PV) assets.

**"Enefit Green welcomes the EBRD, as one of the leading regional long-term investors, to its institutional investor base. The EBRD's participation is an important contribution to the IPO and shows its strong support for our journey towards a greener and more sustainable future. We look forward to a mutually beneficial cooperation."**

**Veiko Rääm, Chief Financial Officer of Enefit Green**



## Improved energy efficiency

The EBRD has been working with local banks to promote lending to service providers (house management companies, energy servicing companies and construction firms) to foster new channels of energy-efficiency improvements in residential buildings.



[Read](#) how the EBRD has supported the green energy development in the Baltic states and Poland by investing in Sunly, a leading renewable energy developer based in Estonia. Sunly is one of the fastest-growing privately owned renewable energy developers in the region and the EBRD's investment has enabled it to expand its renewable energy capacity, achieving significant GHG emission savings.

**"We are thrilled to have the support of such a distinguished and influential investor as the EBRD in the clean energy sector. Its commitment to fostering sustainable growth aligns perfectly with Sunly's mission, and we could not be more proud to have it as an investor in building renewable energy security in the Baltic states and Poland."**

**Priit Lepasepp, CEO of Sunly**



[Read](#) how the EBRD promoted green agriculture by investing in Scandagra, an agribusiness trader in Estonia, Latvia and Lithuania, boosting its plans to expand sustainable agriculture in the Baltic states, Moldova and Ukraine. The funds will train staff in emerging practices and innovative technologies in organic and sustainable agriculture.



[See](#) how the EBRD invested in Estonian company Enefit Green, in the first IPO by a pure-play renewable energy company in the Baltic states.

The EBRD in

# ESTONIA



European Bank  
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## A resilient and diversified financial sector

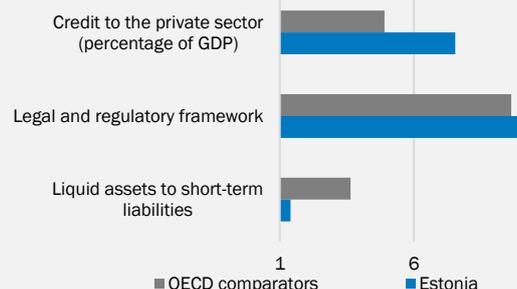
### SDG contribution



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Though Estonia is a regional leader in terms of economic development, with a solid investment backdrop, its capital markets are very small and illiquid. Banks dominate the financial system and have grown significantly in recent years after a series of mergers and restructuring exercises. The country's capital market infrastructure has been consolidated with that of the two other Baltic states and is generally on par with many advanced economies. The size of the market has shrunk in recent years, however, partly due to the country's 2021 pension reforms, which allowed savers to withdraw funds from pillar 2 pension schemes, and a decline in investor sentiment since the start of Russia's war on Ukraine, which has damped international market participation.

EBRD score  
(1 = worst, 10 = best)



### How we work

The EBRD supports the resilience of the local financial sector through direct and indirect financing and equity investments in systemic banks, as well as through policy dialogue with the government and market participants. It also provides risk-sharing facilities to assist banks with capital optimisation. To support trade, the EBRD Trade Facilitation Programme (TFP) provides guarantees covering political and commercial payment risk. The EBRD can also provide trade finance know-how to local banks through training courses, as well as the optimisation of banking procedures and the structuring of trade finance. The Bank continues to support a pan-Baltic approach to its policy initiatives in Estonia.

### The EBRD in Estonia\*



### EBRD quick links

- ▶ [Local currency and capital markets development](#)
- ▶ [Trade Facilitation Programme](#)

The EBRD's award-winning Trade Facilitation Programme (TFP) promotes trade to, from and within the economies where the EBRD invests. Under the programme, we provide guarantees to international commercial banks, thereby covering the political and commercial payment risk of transactions undertaken by partner banks in the EBRD regions.



\* Last updated: January 2024

## Achievements and results: A resilient and diversified financial sector in Estonia

### We support local financial markets by:

- ▶ Increasing support for local clients during Covid-19 and in response to Russia's war on Ukraine. This included lending to local banks to support on-lending to businesses in the challenging economic environment.
- ▶ Investing in Estonia-focused venture capital, equity and debt funds, such as Earlybird Venture Capital, Innova 7 and CVI Private Debt Fund.
- ▶ Deepening and diversifying debt and equity capital markets by investing in the senior bonds of Estonian LHV Bank and regional Luminor Bank.

### We develop capital markets by:

- ▶ undertaking extensive policy engagement in all three Baltic states, aimed at developing and integrating their capital markets.
- ▶ increasing the availability of private equity capital and promoting entrepreneurship by investing in equity funds focused on SMEs and mid-cap companies in the Baltic states (for example, Livonia Partners Fund, Practica Capital Venture, and EfTEN Baltics)
- ▶ supporting the partial privatisation of Port Tallinn, a major infrastructure company in the Baltics, by investing in its IPO on the Nasdaq Tallinn Stock Exchange.

### We promote greater variety and sophistication of financial services by:

- ▶ working with the central banks of Estonia, Latvia and Lithuania to develop a regional market for commercial paper and bring local legislation in line with the EU Covered Bonds Framework
- ▶ unlocking new financial instruments, including covered bonds, securitised instruments, senior non-preferred bonds, municipal bonds and commercial paper through investment and ongoing policy dialogue
- ▶ increasing the supply of investable listed instruments, such as covered bonds, while helping banking clients, such as Luminor Bank, diversify their funding sources through issuance to improve the asset liability mismatch
- ▶ developing the Baltic fintech ecosystem by supporting startups in Estonia, Latvia and Lithuania through an acceleration programme in partnership with Tallinn-based Startup Wise Guys.

### Developing capital markets

The EBRD acquired a stake in the Port of Tallinn through its IPO on the Nasdaq Tallinn Stock Exchange. The IPO saw the partial privatisation of the major Baltic infrastructure company and played a crucial role in improving the liquidity and attractiveness of the Tallinn Stock Exchange and reintroducing the Baltic states to the global capital market.

### Better regulation

With the support of the EBRD, the Estonian government passed a pan-Baltic covered bond law, which unlocks new investment opportunities and diversifies financial sources.



### Greater transparency

The EBRD-supported public listing of the Port of Tallinn, one of the largest public placements in the Baltic states, showed that shares in state-owned enterprises could be successfully sold via local stock exchanges. The EBRD helped to increase company transparency and efficiency, revitalising the local stock exchange and paving the way for future listings.

### Capital market integration

The EBRD worked with the Ministries of Finance of Estonia, Latvia and Lithuania, the European Commission and Nasdaq Baltic to consolidate the Estonian, Latvian, and Lithuanian markets and create a regional MSCI index. The new single index allows the three markets to raise the profile of the region among international investors.

### Better regulatory compliance

EBRD investment in a bail-in senior preferred bond issued by LHV Bank diversified the bank's funding sources and helped to bridge a funding gap to ensure compliance with regulatory requirements at a time of heightened market volatility, amplified by geopolitical risk and reduced investor appetite.

### First Baltic covered bond

The EBRD invested in the first ever covered bond issued in the Baltic states, supporting the establishment of a new capital markets instrument in the region.

### Sustainable finance

The EBRD helped to develop the EU Taxonomy Implementation and Sustainable Finance Roadmap for Estonia and Latvia, promoting administrative capacity in the area of sustainable finance.



[See](#) how the EBRD acquired a 3.6 per cent stake in AS Tallinna Sadam (Port of Tallinn) through its IPO on the Nasdaq Tallinn Stock Exchange. The IPO supported the privatisation of a 33 per cent share of the infrastructure company, while developing local capital markets and contributing to better corporate governance practices.



[Read](#) how the EBRD supported capital markets development and green financing in Estonia by investing in a €100 million senior preferred bond issued by LHV Group.

**"We are very happy to see the EBRD among the investors who are helping us deliver accessible financing to the Estonian economy. LHV is a fast-growing financial group supporting Estonian small and medium-sized enterprises and retail customers in thinking big and fulfilling their plans for a better future."**

**Madis Toomsalu, Chief Executive Officer of LHV Group**



[Read](#) how the Ministries of Finance of Estonia, Latvia and Lithuania, the EBRD, the European Commission and Nasdaq Baltic welcomed an MSCI initiative to consolidate the Estonian, Latvian, and Lithuanian markets and create a single regional index.

# Partnerships

The EBRD supports the transition process by taking a holistic approach through a combination of investment, risk mitigation, capacity building and policy dialogue with local and central governments, regulators, financial institutions and representatives of civil society. Partnership with donors is critical to this process to address transition

challenges, affordability constraints, improve market outcomes in the presence of significant externalities, and steer investments towards improved sustainability and transition impact across the EBRD's regions. With a focus on sustainable and inclusive private-sector development, donor funds also play a key role in building low-carbon

economies and mitigating climate risks. The EBRD has worked with donors since its creation and currently manages relationships with a broad and varied donor community of up to 50 different partners, primarily governments and multi-lateral organisations.

## Our partnerships in action

- ▶ Working with the Ministries of Finance of Estonia, Latvia and Lithuania, the European Commission and Nasdaq Baltic to consolidate the Estonian, Latvian and Lithuanian markets to create a single MSCI regional index.
- ▶ Working with the central banks of Estonia, Latvia and Lithuania to bring local legislation in line with the EU Covered Bonds Framework.
- ▶ Closely collaborating with the Central Bank, Ministry of Finance and Nordic Investment Bank on capital market development, including the introduction of new financial instruments (such as commercial paper).
- ▶ Working in close cooperation with the Estonian and Latvian authorities to develop the EU Taxonomy and Sustainable Finance Roadmap.



## Work with us

### Financing

Debt (loans and bonds)

Equity (direct and through investments in equity funds)

Guarantees (including to local banks for trade finance)

### Advice

Expand

Improve processes and governance

Navigate regulatory environment

Train workers

### Goods and services

Procurement

Careers

### Participate

NGO roundtable

Have your say on EBRD policies and strategies

## Contacts

**Tomas Kairys**, EBRD Head of the Baltic States

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### New business enquiries

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## Shareholding

**28 February 1992**

Joined the EBRD

**1992**

EBRD started investing

**€30.01 million**

Estonia's capital subscription

**Magnus Rystedt**

EBRD Board Director for Estonia

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