



FICIL
RAISE THE BAR!



Readiness of businesses and public administration to implement the Green Deal

18 June 2021



Green economy development is being widely discussed both in Latvia and around the world. Public and private sectors are on the verge of big changes to be brought about by the European Green Deal. Efficient cooperation of all involved parties will determine how successful we are in achieving our goals. Of course, there are entrepreneurs who have been proactive in addressing various sustainability issues by setting up ambitious plans and making sustainability a part of their business strategy, but it is clear that everyone, including the state, will have to go one step further. Green projects are normally associated with long-term investments, with a perspective of, for example, 20 years into the future. The lack of a long-term government strategy and priorities leads to uncertainty among investors. Without knowing the direction of the country for the next 10-20 years, investors are not prepared to invest in green projects which usually involve large sums of money and are planned for longer periods. What can investors expect? How predictable is relevant policy and how important does the public sector consider these matters? Given the complexity of the matter, in-depth knowledge is required to update state policies meaningfully in terms of green economy development. For this reason, FICIL members share their experience, examples of good practice and plans. This is precisely why close cooperation between the private and public sectors is important - in order to gain clarity about what steps should be taken and how specific actions and decisions will affect businesses and society as a whole.

While requirements of statutory regulations are still being reviewed and updated, companies which realise their impact are already working on solutions to become more sustainable. In a study conducted by FICIL, most surveyed companies stated that sustainability has been a part or even the basis of their business development strategies for some time now. While just a few years ago this issue was non-essential for many and often not directly related to their main business, today that has changed: an increasing number of entrepreneurs are thinking about and seeking solutions daily to improve the sustainability of their production, work environment, supply chain and other areas. Sustainability is the logical way forward if we want to work, earn and create benefits for the country, society and ourselves not only tomorrow and the day after tomorrow, but also in one, ten or twenty years. This is reflected in the stories of the 12 foreign investors which you will read in this study.

However, the survey respondents also stated that a common understanding of development prospects, challenges and goals by companies and policymakers was of critical importance. This is one of the stumbling blocks, and the opinions voiced by entrepreneurs are not flattering. At the same time, we must acknowledge that both parties, i.e. businesses and the state, can learn from each other. That is why, based on the conducted survey and information provided by FICIL members, we have drawn up 10 recommendations for policymakers. Their implementation will build the foundation for a stronger economy and long-term social prosperity.

Māris Gruzniņš
FICIL Chair of the Board
Schwenk Latvia
Member of the Board



Evija Šturca
FICIL Member of the Board
KPMG Baltics AS Partner



Sustainability trends in the world, Europe and Latvia

In 2015, in Paris, capital of France, 196 Parties signed the Paris Agreement whose goal was to limit global warming to well below 2°, preferably to 1.5°C, compared to pre-industrial levels.¹ The greenhouse gas emitted into the atmosphere, which literally creates a 'greenhouse' effect that drives global temperatures up, is the main contributor to global warming. The most frequently mentioned and most common emissions consist of carbon dioxide or CO₂ and represent approx. 35 billion tonnes a year, but total greenhouse gas emissions amount to 50 billion tonnes a year.² So the only way to slow down global warming is to reduce the amount of gases released into the atmosphere every year and to collect already emitted gases (using both land reforestation and carbon capture solutions). Experts say that in order to limit global warming to 1.5°C, the amount of gas emissions must be reduced by 50% by 2030 and zero emissions must be achieved by 2050.³

The Paris Agreement establishes three main action areas to achieve reduction of emissions: financing to encourage climate neutrality, innovation, improvement of general awareness and capacity building.⁴

This year, the 26th Climate Change Conference will take place in Glasgow, UK, where the Paris solutions will be strengthened. Among other things, organisers of the Conference believe that it is necessary to agree

on intensifying emission reduction efforts, encouraging countries to adapt to climate change and pursue further development of various financial instruments to support combatting climate change and necessary innovations in energy, manufacturing, transport and other areas.⁵

Of course, to a certain extent, emissions have been limited by the Covid-19 pandemic, which led to reduction of greenhouse gas emissions in 2020, but the drop is not that significant and cannot be expected to continue in the long term as the world gradually recovers from the pandemic. Various sources mention a 5-10%

reduction in 2020,⁶ which can largely be attributed to transport (because we travel less, especially over long distances, including by plane). However, it is significant that this reduction is true for passenger, not

cargo transportation (which has even grown in some sectors, driven by a surge in online shopping), and the transport sector generates only 16-20% of global greenhouse gas emissions.⁷

Returning to the global warming solutions set forth in the Paris Agreement, we can see that in recent years the European Union (EU), as one of the parties to the Agreement, has taken significant steps in implementing its Green Deal and supporting new resilience, fair transition and sustainable finance solutions.

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1 [The Paris Agreement | UNFCCC](#)

2 [Greenhouse gas emissions - Our World in Data](#)

3 [What Does "Net-Zero Emissions" Mean? 6 Common Questions, Answered | World Resources Institute \(wri.org\)](#)

4 [The Paris Agreement | UNFCCC](#)

5 [HOME - UN Climate Change Conference \(COP26\) at the SEC – Glasgow 2021 \(ukcop26.org\)](#)

6 [Global Energy Review: CO₂ Emissions in 2020 – Analysis - IEA](#)

7 [Data & Statistics - IEA](#)

One of the most important directions for the EU is supporting of sustainable work by businesses in various industries using its leverage of availability (or unavailability) of financing. This is evidenced by regulations adopted in recent years and aimed at increased reporting in the financial sector on the sustainability of their customer and investment portfolios and integration of the ESG criteria (environment/social/governance) into the financial sector's risk assessment of customers and investments.

In fact, this trend started at the EU level back in 2014 with the adoption of the so-called Non-Financial Reporting Directive 2014/95/EU,⁸ which set forth the obligation

of specific groups of companies (including companies in the financial sector and socially important structures) to provide non-financial information related to their activities. This year, the European Commission (EC) has made significant changes to the scope of this Directive by proposing a new corporate sustainability reporting directive,⁹ which will replace the previous one and extend the obligation to report to a wider range of companies,

8 DIRECTIVE 2014/95/EU OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL (22 October 2014) amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups (europa.eu)

9 <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52021PC0189&from=EN>

10 <https://eur-lex.europa.eu/legal-content/LV/TXT/PDF/?uri=CELEX:32019R2088&from=LV>

11 2020-10-15 BoS - ESG report MASTER FILEcl.docx (europa.eu)

12 Guide on climate-related and environmental risks (europa.eu)

making non-financial performance reporting much more explicitly part of the sustainability framework and establishing the need to draw up sustainability reports.

Regulation (EU) 2019/2088¹⁰ on sustainability-related disclosures in the financial services sector also came into force in March 2021. It stipulates a clear obligation for financial market participants to integrate sustainability risks into their activities when assessing the ESG risks of their investment projects.

The fact that the financial sector will have to analyse, summarise and report more information about how ESG risks are taken into account when assessing their customers and potential investments indirectly also means that the businesses will have to be more prepared to summarise and provide such information about their activities.

It was followed by the European Banking Authority¹¹ and European Central Bank guide¹² on integrating ESG risks considerations into activities of the financial sector. In other words, the fact that the financial sector will have to analyse, summarise and report

more information about how ESG risks are taken into account when assessing their customers and potential investments indirectly also means that those businesses for which access to financing is important will have to be more prepared to summarise and provide such information about their activities. Logically, this means not only provision of information, but ultimately integration of broader sustainability aspects into their businesses.



In a way, provision of sustainability information is made easier by the EU Taxonomy,¹³ which sets out detailed criteria for specific sectors in terms of what information and data should be summarised. However, it should be noted that the application of the Taxonomy will be complex and time-consuming, at least in its initial phase, especially given that only in April 21 the EC published the Taxonomy White Papers,¹⁴ which set forth more specific data requirements and reporting criteria in areas related to the impact of industries on climate change or adaptation. Such white papers have not yet been developed for other Taxonomy groups, such as sustainable use of water resources, transition to a circular economy, prevention and control of pollution and protection and restoration of biodiversity.

However, in Latvia we often hear that for us climate issues are not relevant, as the country is rather green, the climate is good, proper winters (as this year) still happen, and an extra warm day here or there will not hurt. But it is not possible to agree that we should not worry about it. This is particularly true for businesses which work in an international environment and may soon realise that their suppliers' ability to deliver orders may change or deliveries may slow down, or they will have to look for supplies elsewhere because of climate change. However, in the long run, it can affect us all: rising temperatures in the hottest regions can force migration flows north (where we are) as areas closer to the equator burn out, thus reducing food production capacity and water availability elsewhere. In the context of globalisation, this means more pressure on areas where there is still fertile land and sufficient moisture. Moreover, in recent years we have been seeing increasingly more storms and rapidly changing weather. These are just some of the consequences that already affect us or may affect our lives in the near future.

¹³ [EU taxonomy for sustainable activities | European Commission \(europa.eu\)](https://ec.europa.eu/euro-observatory/en/eu-taxonomy-for-sustainable-activities)

¹⁴ https://ec.europa.eu/info/publications/210421-sustainable-finance-communication_en





In 2020, KPMG, together with the international law firm Eversheds Sutherland, conducted a global survey of more than 500 leading companies worldwide to find out how they understand climate change, its effect on business and why companies are paying more attention to this issue.¹⁵ About three quarters of the companies surveyed stated that decarbonisation targets were included in their strategies and action plans. About the same number of top executives expressed understanding of the fact that their own ability to keep their jobs and continue working in the coming years depended directly on their ability to reach those targets and that their companies needed to improve their competence in climate matters continuously. When asked what practical benefits for business might be brought about by defining climate goals and activities to reach those goals, in addition to contributing to global zero emissions goals, more than half also mentioned cost cutting for the company in the long run. About a third of respondents stated that this will ensure access to capital and reduce the likelihood that credit rating agencies, which increasingly monitor the performance of companies in this respect, will reduce their companies' ratings. 28% feel pressure from their customers or supply chain partners, while 22% believe that improvement of the company's sustainability might prevent investors from leaving the company.

The objectives defined are often not understood and successively transformed into lower level planning documents, policy initiatives and diversion of public funding to achieve the set goals.

When asked why they summarise data and publish sustainability reports, entrepreneurs provide similar responses: external requirements (regulations, investors, customers, best industry practices) and internal needs (better risk identification and the desire of their employees for the company they work for to be sustainable).

In Latvia, the main climate policy-planning document is the National Energy and Climate Plan (NECP) for 2021-2030,¹⁶ which sets the goals for reducing greenhouse gas emissions, promotes CO₂ capture, increases the

share of renewable energy in end consumption and transport energy consumption, reduction of heat consumption, increased research and development expenditure to meet energy and climate goals, etc. However, the

entrepreneurs and experts interviewed for this report believe that the NECP objectives do not set priorities clearly enough and there is no mechanism to ensure the successful achievement of these objectives. The plan for implementation is fragmented, involves multiple departments and provides no clear and regular supervision. Moreover, the objectives defined in the NECP are often not understood and successively transformed into lower level planning documents, policy initiatives and diversion of public funding to achieve the set goals.

¹⁵ <https://home.kpmg/xx/en/home/insights/2020/11/climate-change-and-corporate-value-what-companies-really-think.html>

¹⁶ NATIONAL ENERGY AND CLIMATE PLAN | Minister of Economics (em.gov.lv)

Combatting and adapting to climate change is undeniably the most frequently mentioned and relevant sustainability area today. At the same time, social and governance issues are no less urgent. Societal ageing and intergenerational cooperation, discrimination against various groups in society, business transparency, fair procurement practices, anti-corruption and other areas were considered the most important in our region. Although they are not yet covered in the aforementioned EU regulations in as much detail as climate change issues, the ESG risk assessment in the financial sector should also include these criteria. The EC is also planning to develop a common sustainability reporting standard that will be binding for subjects of the Corporate Sustainability Reporting Directive¹⁷ with an initiative for a new Sustainable Corporate Governance Directive also on the agenda.

In these areas, documents as detailed as the NECP have not been drawn up in Latvian policy planning, but initiatives or guidelines are being developed in some

areas. For example, corporate governance in the public sector is subject to the Law on Governance of Capital Shares of a Public Person and Capital Companies¹⁸ and the guidelines issued by the Cross-Sectoral Coordination Centre.¹⁹ In 2020, Riga City Council also adopted regulations on governance of capital shares and capital companies.²⁰ At the end of 2020, the Ministry of Justice approved the Corporate Governance Code,²¹ which provides information about good governance principles to businesses in the form of guidelines.

How the latest European Commission requirement to provide sustainability information in the financial and subordinately in other sectors will transform the Latvian regulatory framework is not yet fully clear, but the Financial and Capital Market Commission is already working on requirements for integration of ESG factors into the Credit Risk Management Regulation. The regulations are expected to be approved and gradually implemented in the activities of financial market participants and credit institutions as soon as 2021.

¹⁷ <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52021PC0189&from=EN>

¹⁸ Law on Governance of Capital Shares of a Public Person and Capital Companies (likumi.lv)

¹⁹ STATE-OWNED ENTERPRISE GOVERNANCE (valstskapitals.gov.lv)

²⁰ [download \(riga.lv\)](http://download.riga.lv)

²¹ CORPORATE GOVERNANCE CODE (tm.gov.lv)



Sustainability as a business strategy – good practice

While regulatory requirements are still being refined, the companies which are aware of their impact on global processes and the local community are already working on solutions to reduce their environmental footprint, create a friendly environment for society, their employees and customers and be transparent in their activities.

For the purposes of this report, in-depth interviews with 12 companies were conducted, members of the Foreign Investors Council in Latvia (FICIL) representing IT, real estate management, construction materials production, food industry, retail and other industries.

All surveyed companies acknowledged that sustainability has long ceased to be a secondary issue to other business processes, and has rather become a part or even the foundation of their business development strategy. Given that the interviewed companies represent multinational groups, most sustainability strategies have been developed at a group level, but in each country companies can adapt them to local circumstances and needs.

An important part of the sustainability goals and activities of these companies are social goals: a safer environment that fosters development and is pleasant for employees, transparent communication with customers and partners and support for the local community at both national and local levels. At the same time, all companies have targets for improving their environmental impact parameters and, with an awareness of the global targets, several industrial companies have already started working actively to transform their existing traditional businesses in the long run by adapting to climate change and related requirements.

In addition, it should be noted that all FICIL members interviewed for this report stated that a common understanding of development prospects, challenges and goals by both companies and policymakers is critical for creating a more sustainable economic and business environment in Latvia.





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«Being sustainable helps a company in competition for talents as well as being active in this area may become a unique selling point in your personal career.»

Sara Nordbrand, Head of Group Sustainability



Telecommunications, Cloud Services, IT Security Solutions, Video Streaming, Monitoring and Other Solutions

In the recent years, the Company has made a significant contribution to sustainable development starting from establishing the aim of the Company internally and analysing expectations of the external stakeholders. As a result, 10-15 potential sustainability areas were identified out of which the Company has selected three most important ones in which it has the biggest potential to create a positive impact:

- 01 **Climate and circular economy** – Telia has committed to achieve zero CO₂ and zero waste by 2030 as well as to develop principles of circular economy in customer relations;
- 02 **Digital inclusion** – providing digital connections to different groups of society and regions, promoting education, and facilitating use of responsible online solutions;
- 03 **Privacy and security** – high standards in respect of data security and processing of information.

In addition to the issues above, the Company devotes special attention to diversity and inclusion, staff involvement, children's rights, and other areas.

Telia's sustainability strategy is not separated from its business strategy – they are closely integrated and implemented together, including setting specific indicators for the management of the Company which are to be achieved in relation to the sustainability objectives integrating them into the Company's risk management, due diligence and supervision process, staff involvement activities, satisfaction indicators, and other business processes. The Company inter alia performs around 100 audits of cooperation partners a year (during the COVID-19 pandemic a new remote audit solution has been developed) on the basis of the assessment of sustainability risks made, and also carries out an assessment of suppliers in the field of environment.

The Company admits that investors are increasingly more interested in sustainability issues. Over the last three years, Telia has focused not only on reporting its sustainability

indicators but also on analysing environmental impact of the supply chain, nonetheless, this process is not easy – it results in an increased need to obtain data from contracting parties which have not always gathered this information themselves and do not have it available. The Company is, however, working on simplifying and automating the process, at the same time obtaining more detailed and useful information.

Telia is creating a sustainability report at the Group level – in the last years it has been based on the GRI, TCFD and UN principles but three years ago the Company developed its own standard for sustainability reporting which is used when drawing up its reports. EU level sustainability reporting initiatives, draft EU Taxonomy (in which telecommunications have not been developed in a sufficiently detailed manner), human rights, and environmental requirements as well as specific industry requirements have been taken into account in the development of the standard. The Company believes that over the next few years sustainability reports will become an everyday issue of many companies and the biggest challenge is to decide what approach to use and what information is to be considered relevant.

During the COVID-19 pandemic the Company has not stopped contributing to sustainable development, on the contrary, increased attention has been paid to the health and well-being of employees, even taking into account the different regulations adopted by different governments on the markets where companies of the Group operate. Special support has also been provided to ensure increased capacity of communications networks both for employees and clients who work and learn from home, in an online environment, more than before. In some countries, the Company has paid special attention to supporting education, including supplying hardware, ensuring software support and content solutions. In other places, a possibility has been offered for small and medium enterprises to place advertising free of charge and also to move to online trade quickly and efficiently. Telia has developed a data-driven service that during the pandemic enabled health authorities in the countries where the company operates, including Latvia, to monitor if restrictions were being followed. The service only used aggregated and fully anonymised data.

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«One of the biggest challenges for companies is the approach and metrics for sustainability information and reporting, and that is going to be the big question for the next couple of years.»

Olesja Ivanova, Chief Operations Officer



B2B IT Services in Live Casino

Sustainability has been integrated into the development strategy and everyday activities of the Company emphasising six most significant areas in particular:

- 01 **Diversity** – din a working environment;
- 02 **Responsible gaming** (although the Company does not provide gambling services itself, it develops and provides solutions for its clients, thus the Company believes that its activities also include development of responsible, clear, and understandable solutions and draw clients' attention to the potential risks);
- 03 **Responsible business practices;**
- 04 **Employees and working environment** (it should be noted that the Company's staff mainly consists of young people to whom sustainability aspects are important also in the choice an employer);
- 05 **Public** (support to education and development of IT sector);
- 06 **Environment** (although the Company is not involved in industrial activities, it pays attention in its operation to environmental factors such as requirements for its office buildings, lightning etc. as well as facilities of studios and innovations in them – taking into account that traditionally the studios necessary for organising gambling are energy-intensive).

The Company believes that one of the most relevant impact areas constitutes promotion of responsible gaming, and for this purpose it has created an Evolution Academy training programme which is repeated every year and in which employees are trained to recognise problematic situations, user habits related to potential addictions, and signs of addictions in a gaming chat. Although the Company itself does not come in contact with the end user (gambler), this information is communicated to clients and then solutions are sought together.

Since 2019, Evolution Gaming has been collecting data on the Company's performance in all the aspects above and has started making public the sustainability information in a report on the Company's activities. It is expected that in the following years a greater emphasis will be put on information which is directly related to the environmental impact and a report will be drawn on the basis of the UN Sustainable Development Goals.

As a result of the COVID-19, sustainability initiatives of the Company have even expanded rather than shrunk. The Company has inter alia approached and offered employment opportunities for people who have been left without work in other places due to the pandemic, donated used computer hardware to higher education institutions to ensure effective remote learning, and also denoted equipment to medical establishments.

Since the Company has been quoted on stock exchange, it has recently noticed an interest of investors in the sustainability of companies, therefore it is expected that an increasing number of companies will pay attention to these issues in the future.

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«You need to have a push from the top and involvement of employees. Put a range of smaller activities under the sustainability umbrella and trickle them down through the whole organisation. Thus you will create a sense of ownership and get everybody to be involved and passionate about it.»

Frode Grønvold, Chairman of the Board



Real Estate Management and Lease

Sustainability is very high on the agenda of the Group of companies, and the Company is also gradually integrating it into its development strategy in the Baltics. Currently one of the five strategical directions of the Company is directly related to sustainability, promotion of sustainable thinking and operation. The most significant directions of the practical operation are related to the following:

- 01 **Reducing CO₂ emissions** – monitoring is carried out in all the properties managed by the Company setting specific emissions goals in some of them and identifying relevant activities to reach the goals;
- 02 **Construction of buildings according to the BREEAM certification** – the Group of companies wishes to reach a level that all of the properties managed by it comply with the BREEAM Excellent standard (which inter alia lays down important aspects of energy efficiency and quality of buildings, client satisfaction etc.). This area is just evolving in the Baltics, yet in 2021, the first building developed by the company has already obtained this certificate;
- 03 **Safe and healthy working environment** – the Roadmap 2050 has already been developed in this field at the corporate level in Norway, while in the Baltics the possible development of this direction is currently under consideration;
- 04 **Charity** – taking into account the active operation of the Company in Latvia, it also wishes to contribute to the public well-being. Support areas are chosen in each country according to the environment and people of a relevant country – in Latvia, the Company actively supports Ronald McDonald House Charities ensuring health care to approximately 5,000 children every year.

The Company has noticed that also the external partners, in particular financial institutions, gradually pay increased attention to sustainability issues of companies. Of course, taking into account that Linstow is moving towards construction that corresponds to the BREEAM standards, it will probably be comparatively easier to ensure compliance with the requirements of partners, since the BREEAM has intended to bring requirements of its standards into line with

the requirements of the EU Taxonomy which will make it easier for companies to carry out reporting and presentation of data.

As to the relevance of certification, the management of the Company emphasises that even 15-20 years ago it was difficult to justify why it is necessary for the Company. Now, it is a business need – the existence of the certificate will ensure that the value of buildings will increase with time, while it will be increasingly difficult to sell properties which do not have such certificate. Clients tend to show more interest in the sustainability of buildings as well. Linstow also intends to pay increased attention in its future development to long-term impact of projects – both environmental and social aspects together with economic benefits and returns.

Sustainability is also reflected in daily management processes such as choice of suppliers. First, construction companies should be able to ensure compliance with the requirements of the BREEAM standard. This also increases the competence of local construction companies which become more sustainable in their operation not only in respect of Linstow projects but also in general. The Company is also exploring how to use the minimum possible amount of concrete in construction (for example, replacing it with wood where possible). The Company has not yet established so strict criteria for the selection of partners in the field of property operators (such as hotel operators), however, it is rather obvious that operators themselves are becoming more oriented towards sustainable operation.

The Company integrates sustainability information in annual reports and also makes public individual reports on energy consumption on an annual basis at the Group level. At the moment the Company is working on a new reporting system which will include all three scopes of greenhouse gas emissions – both direct and indirect impact of the Company. Based on the data of 2019 (since 2020 cannot be considered a «standard» year due to the impact of COVID-19), the Company will set its future development goals in this area.

Except for the aspect above, COVID-19 has not brought any significant changes in the Company's support of sustainability, yet it is clear that it will have long-lasting impact on the real estate sector – more compact offices will be built providing for flexible work possibilities, since working from home and new habits are likely here to stay.

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«Internal communication on sustainability and the objectives we have is key to success. A very important aspect for internal communication is showing specific good examples and practices, demonstrating results, focusing on practical information.»

Valdis Turlais, Country Managing Director Rimi Latvia



Retail Trade

Sustainability is not something nice to have for Rimi. It is part of the company's DNA and every business decision. With great impact comes great responsibility, and the company has committed to be a positive force in society, towards environment and for the employees.

Rimi Baltic's sustainability program consists of 5 areas:

- 01 **Environment** – the company seeks to reduce its environmental impact, promote climate-neutral processes in its operations and help customers make sustainable choices;
- 02 **Health** – Rimi is constantly improving its healthy product offering and is actively involved in promoting a healthy lifestyle;
- 03 **Local community** – the company is actively involved in the life of the local community;
- 04 **Quality** – quality and social responsibility are closely linked to the company's day-to-day operations;
- 05 **Diversity** – the company fosters diversity in everyday work and perceives it as a factor that increases competitiveness.

Within Rimi's mother company ICA Group (Sweden) sustainability policy and guidelines have been developed. Rimi follows them while setting objectives and defining activities in the 5 aforementioned areas. Of course, also local context of the three Baltic states market is taken into account. The governing body of the sustainability program is the Corporate Responsibility Board that meets quarterly to review KPI performance and discuss strategic initiatives. Corporate responsibility director is also a member of the Baltic Management team.

The company also prepares quarterly and annual reports on the results of its sustainability activities, with particular focus on the amount of CO₂ emissions, food waste management, social and quality audits, and other topics. However, Rimi acknowledges that data collection in some cases is a challenge because the company operates in three countries, each with different regulatory requirements, therefore data needs to be harmonised.

The data collected by Rimi in the framework of a sustainability report is also an important source of information for decision-making, for example, CO₂ figures or food waste indicate in which areas the company needs to make improvements and what needs to be addressed.

In addition to making decisions within the company, Rimi Baltic also works with suppliers, the most visible part being the sustainability appendix to each supplier contract. The appendix is mandatory and defines the key requirements of the sustainability policy and the principles for their implementation. In cases where the supplier is unwilling to sign this appendix and take responsibility, Rimi will not enter into a cooperation agreement.

With regard to COVID-19, the company acknowledges that in the long term its sustainability objectives have not been changed by the pandemic, but in the short term the prioritisation of health-related initiatives (for example, employee health, safe shopping in stores, e-commerce development) has certainly been affected. Overall, however, the pandemic has been a good test for the company's corporate responsibility strategy, which has proven to be relevant in these circumstances.

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«The issue of CO₂ emissions is closely linked to our core business, values and products: taking care to reduce emissions gives us an advantage over our competitors in the long term. That is why we are looking at how we can improve the operation at every stage: logistics, equipment selection, energy efficiency and more.»

Haralds Vīgants, Member of the Board



Manufacture and Sale of Wood Pellets

Unlike many other industries, the company operates in an area where the resource itself is sustainable. At the same time, it is often the wood-based sectors that are accused of cutting down forests and reducing the natural capacity to accumulate CO₂. Latgran therefore plans its activities from a sustainability perspective along four essential dimensions:

- 01 **Forestry and logging** – the company is committed to the long-term availability of the resource and, given that trees grow on average in about 70 years, it is important to take care of their cultivation and the appropriate biodiversity of the forest today;
- 02 **Pellet production** – wood is used in the process, but a more environmentally friendly fuel than, for example, coal or natural gas is produced. The company also regularly assesses opportunities to reduce greenhouse gas emissions, electricity consumption, fuel consumption and to comply with the basic principles of the circular economy in the use of spare parts;
- 03 **Production of biomaterials** – looking at how to add more value to wood and keep pace with technological developments, Latgran and its parent company in Estonia are evaluating how to create the highest possible value-added biomaterials/ biochemicals products from the existing resource to replace less environmentally friendly products;
- 04 **Social aspects** – safety and the working environment are of primary importance to the industrial company, but attention is also paid to the regional social environment, as the company's business units operate in the regions of Latvia. Latgran employees are also happy to participate in activities to support the local community.

Latgran points out that of the timber available in the forest, about 20% is not usable for sawn timber and further production of building or carpentry materials, but this resource can be used for energy and processed into pellets. The company also recycles by-products from sawmills, such as sawdust and wood chips. In this way, the company is

helping to develop a zero-waste approach to forestry and wood processing.

As compliance with sustainable standards is both in its own interest and important for its customers, the company operates according to the Sustainable Biomass Programme standard and produces publicly available reports in line with it, which involve external stakeholders such as the World Wide Fund for Nature in Latvia and other organisations.

The requirements of the biomass certification standards also help to put the principles of sustainable operation into practice. As required, the company also has an environmental management system, an occupational safety system and an energy management system. Compliance with the requirements is overseen by two staff members, one at the international level balancing/ evaluating requirements between countries and the other at the regional level. All employees are involved in the sustainability performance principles in line with the requirements of the standards. In each area, targets are also set for specific divisions and their managers, as well as performance indicators to be achieved, which are monitored on a quarterly basis. Sustainability also plays an important role in decision-making, for example, when considering the purchase of new equipment (whether it will help reduce energy consumption).

In recent years, the company has been developing automation and data storage for aspects related to determining the CO₂ impact of the production process. Various indicators are tracked in the production process and benchmarks are set to reduce the CO₂ footprint of the product throughout the entire production cycle, from the planting of the seedling in the forest to the delivery of the final product to the customer. The management of the company acknowledges that it is easier for the parent company in Estonia to establish these records as they cover the entire production cycle of the product, whereas in Latvia there are other actors in the supply chain who cannot yet provide such records for Latgran. However, this is only a matter of time, which the company believes will also be stimulated by developments in the financial sector, which is increasingly looking into the issues of the future value and sustainability risks of companies.

«Besides other sustainability goals such as climate change which is crucial at the moment, shadow economy is also a very significant one – and has gained prominence during COVID-19. That requires increased attention, as in order for the shadow economy to work you need people on both ends of the supply chain tolerating that. We work with our suppliers and partners, but this requires more effort at all levels.»

Reinhold Schneider, Chairman of the Board



Production of Cement and Building Materials

The Company believes that sustainability is one of the most significant factors in respect of both compliance and business development. The following impact areas have been identified by the Company as the most relevant to its operation:

01 Healthy and safe working environment – the Company has set itself an objective to achieve zero accidents and developed a roadmap to reach this objective. Along with the production processes, a substantial work is carried out to educate drivers of the Company promoting responsible behaviour on the road and encouraging other road users to comment on the behaviour of the Company's drivers;

02 Climate objectives – these objectives are viewed together with the business objectives. In 2022, the Company intends to move closer to the aim of reducing use of fossil fuels to zero, however, significant emissions result directly from the production process of cement, and the Company is well aware of that. The Company creates 8% of all CO₂ emissions in Latvia, therefore it is looking for solutions to reduce emissions. A potential direction is carbon capture technology, yet it is an expensive solution, consequently a dialogue is held with decision makers on a single approach to the use of this solution;

03 Reducing shadow economy – although the Company itself operates in a transparent manner, it still believes that shadow economy reduces competitiveness of national economy, therefore it becomes engaged in the processes related to reducing «the grey area» as much as possible and speaks about these issues publicly;

04 Corporate social responsibility activities – these are related to the external impact parties, society, residents of local governments around the Company.

It is the climate objectives which the Company considers the most important to the long-term existence of the Company – without reaching them it should be expected that cement will slowly disappear as a building material. Thus the existence of the Company depends directly on the reduction of emissions. All investment decisions of Schwenk Latvia and other companies of the Group (such as those regarding new

facilities, waste reduction etc.) are related to these objectives. 95% of the investments are currently closely related to the roadmap for the reduction of CO₂ emissions which is binding on all employees of the Company. Climate objectives and also other sustainability objectives referred to above are daily agenda items at management meetings.

The management of the Company acknowledges that clients demand climate-neutral building materials more and more – it is not so obvious in the Baltic states yet, but in Scandinavia the Company may no longer sell cement if its production is related to high CO₂ emissions.

In order to reach the sustainability objectives defined, the Company identifies specific priorities each year the implementation of which is tied to the procedures for calculating remuneration and bonuses of employees. A group for the coordination of CO₂ objectives has been established at the Group level and also in Latvia involving representatives from production, business development and other functions. This group comes together once every two months to examine current information, activities to be carried out, communication measures, meetings with impact parties, political initiatives, and other important issues related to the achievement of the big aim – to become a producer of climate-neutral cement.

The Company informs the public about its activities at the Group level, and it has also been making public a sustainability report in Latvia since 2020 which is based on the UN Sustainable Development Goals. In order to improve development of the report, Schwenk Latvia intends to involve impact parties more actively in order to obtain their view on the most significant impact areas of the Company.

Supplier audit procedures are also under development – the Company is currently working on the establishment of audit scope and principles to verify in the future the responsibility of their suppliers in the environment and social and management field on a regular basis and to help them grow with the Company. Moreover, Schwenk Latvia notes that financial institutions request detailed information more frequently on the Company's impact indicators, implementation of CO₂ roadmap, and other sustainability-related information.

As to the COVID-19 pandemic, the Company emphasises that it has not changed the Company's commitment to sustainability, however, it has definitely brought to light the issue of shadow economy in Latvia which has become more obvious and thus currently requires special attention when working with companies of all levels.

.....
«Our philosophy is that it is more profitable to work sustainably. And awareness of this should be promoted among both business and policy planners.»

Andris Veinbergs, Technical Manager



Manufacture of Building Materials and Construction Systems

Knauf is a leader in the production of gypsum plasterboard, which is widely used in construction, but the company believes that such a position in the market also implies a high level of responsibility for the production process and the use of the product on a global scale. In Latvia, this is accompanied by a historical responsibility, as Latvia was the first country in Europe to produce gypsum plasterboard before the Second World War. Thus, the company considers the following three areas of sustainability to be the most important for its operations and for its contractual partners:

- 01 **Responsibility for the product;**
- 02 **Responsibility for the use of natural resources;**
- 03 **Responsibility towards the consumer.**

The company strives not only to do what is already mandated by regulation, but to stay one step ahead and find solutions that help the company work in the long term and be responsible in all of the above areas. This includes Knauf preparing both product declarations and declarations of the systems used, as well as reporting on its initiatives in the Group Sustainability Report, which is produced at the group level in accordance with the Global Reporting Initiative (GRI) standard.

Sustainability issues also play a major role in internal communication, including on Knauf's internal web, which brings together colleagues in 100 countries around the world. Sustainability is also a key topic in the Knauf Academy curricula, which are taught to employees as well as students of higher and vocational education institutions. A topical issue is the integration into the circular economy cycle, for example in Latvia Knauf has developed equipment for the reuse of gypsum plasterboards thus both recycling and minimising environmental damage. Other initiatives include the creation of sound walls around the factory

(although the production process almost does not create noise noticable to neighbors), standards for a safe working environment, etc.

Knauf has been involved in the work of the Sustainable Construction Council, defining principles for the correct use of materials, and in the development of a standard for a sustainable construction engineer training programme.

Although its core business is the production of gypsum plasterboard, with the long-term in mind, Knauf actively supports the initiative to develop timber construction in Latvia. In other parts of the world, multi-storey buildings are already being constructed from wood, and there are prospects for doing so in Latvia too, but appropriate changes in legislation and requirements are needed. According to the company's management, the development of timber construction would not only be more environmentally friendly but would also create a new opportunity to create a different visual DNA and promote more efficient use of resources. Moreover, Knauf sees no conflict with its core business in this initiative: wood and gypsum are classical and good materials, but wood is inevitably a combustible material, whereas gypsum contains crystalline water, thus gypsum plasterboard finish also makes a wooden building more fire-resistant. The company also produces insulation materials such as mineral wool, mortars, adhesives, etc., that make buildings more energy efficient and "quieter".

Meanwhile, in digital solutions related to construction development (BIM, etc.), the company sees both opportunities to develop more innovative and efficient approaches and to reduce corruption risks, as all information is transparent.

With regard to the increasing demands of the financial sector on sustainability, Knauf acknowledges that due to the group's structure and investment planning, this is not currently an issue for the company, but there is a definite need for banks to become more pro-sustainability. This includes the construction sector by demanding more from developers.

«Without sustainability, the company cannot grow – including financially. Of course, sustainability also means investment, and a company needs to assess how much it can afford to invest proportionally or in monetary terms. However, there are areas where if we don't invest today, we will get nowhere and may lose competitiveness in the future. A typical example is electric cars and their charging infrastructure.»

Gunta Jēkabsons, Managing Director



Retail Sale of Fuel

As a listed company, governance and sustainability issues are of great importance to Circle K, both at the group level and in each of the countries where it operates. At the group level, specific targets have been set for the company to achieve by 2025 and 2030, which are also binding for each individual market. The key objectives of Circle K are:

- 01 Fuel** – 10% higher renewable fuel target than global requirements, 12% reduction in GHG emissions from fuel sold in 2025 (compared to 2020);
- 02 Energy** – 30% of the company's locations achieve the zero emissions target in 2030, and a progressive reduction in energy consumption is promoted;
- 03 Packaging and waste** – in 2030, all packaging is recyclable, and the re-use of waste is promoted;
- 04 Workplace safety** – a reduction of theft and accidents in the workplace by 50% in 2025 (compared to 2020).

In addition to these areas, customer service, management of environmental issues in general (not only the areas referred to above), staff development, community involvement and good governance are also considered essential. Each year, sustainability indicators are also included in the key performance indicators (KPIs) of managers when setting the budget and objectives.

Circle K believes that the key to successful sustainability management is to build an internal culture where global goals are transformed into country-specific goals but cascaded down to each region and each individual service station, involving every employee and empowering them to take their own initiatives. Similarly, at company level, there are both larger-scale and relatively small-scale initiatives related to sustainability, for example, exploring the possibility of recycling coffee grounds from service station coffee machines (which can be used for agricultural purposes, for example) or finding ways to donate food scraps to animal shelters.

The sustainability report is prepared by the company at the group level according to its own format, while at the local level it provides mandatory information (e.g., the amount of impurities in the 'green' fuel). Internally, the company also carries out an analysis of electricity consumption at different service stations to identify good practices and improvements that other colleagues can implement as well.

Sustainability aspects are also integrated into various management processes, such as supplier selection. Suppliers are divided into several groups depending on the impact each has on Circle K's objectives: there are areas where the company has defined that it does not work with certain types of suppliers (e.g., not selling products using caged chicken eggs), while others are subject to regular audits (mainly in the food industry). Each supplier must also sign a declaration of compliance with the company's requirements, including in the area of sustainability, at the start of their cooperation with the company.

During COVID-19, the company has not significantly changed its sustainability objectives or approach but has placed even more emphasis on a safe working environment, including in the context of epidemiological considerations.

.....
«Whatever we do is related to sustainability. It is very important – to reach balance between a good life and what you are leaving behind!»

Jan Willem Bots, Managing Director



Transshipment of Oil and Petroleum Products

The activity of the Company is directly related to the environmental impact, therefore sustainability has always been an important aspect of how business of the Company is conducted. The Group of companies has a motto «Full of energy», and this aspect is also taken into account when planning sustainable activities of the Company – thinking of both transport and logistics solutions and development of energy solutions that are more environmentally friendly.

The Company has identified the following sustainability areas which are most relevant to the Company:

- 01 **Transport and logistics** – use of low-emission vehicles, a shift to alternative fuels and renewable energy resources;
- 02 **Monitoring environmental impact** – identifying and reducing CO₂ footprint;
- 03 **Improving environment** – installing solar panels, increasing energy efficiency, waste sorting, removal of historical pollution;
- 04 **Staff involvement** – working environment, staff well-being, raising awareness of environmental protection and climate changes, and promoting daily habits;
- 05 **Promoting good corporate governance practices** – compliance with the regulation, evaluation of clients and cooperation partners, participation in the improvement of business environment

The Company has established a sustainability working group in which voluntary sustainability «ambassadors» discuss solutions relevant to the Company and education of employees so that they introduce environmentally-friendly habits at work and also in their everyday life.

The Company works primarily with business clients and is not connected directly with the consumer goods market, its sustainability activities are mostly concentrated inside the Company, and also seen as an opportunity for growth into new markets. Another aspect of sustainability is the positive effect to the image of the Company, especially as an employer. Recently, the Company has noticed an increased demand for transparency of sustainability information. Therefore, work has been started at the Group level on the development of an ESG (Environment, Social, Governance) report. The Company also calculates a CO₂ footprint which so far has been mainly used in the internal purposes. The Company continues its efforts to further refine the quality of its sustainability reporting, including the challenge to obtain qualitative & quantitative third-level emissions which are indirectly related to the operation of the Company making it more difficult to obtain data.

The management of the Company believes it is relevant to the sustainability to fight shadow economy, therefore it makes an effort to educate its contracting parties about attracting responsible sub-contractors and creating supply chains.

As to the COVID-19 pandemic, the management of the Company emphasises that the pandemic has definitely made the Company to review its aims and activities in sustainable development mainly strengthening this direction, including sustainability in decision-making and making sure proper attention is given to the health of employees.

.....
«It is essential that the big aims transform into a practical approach and steps at the business level, meaning – walk the talk.»

Toms Didrihsons, Chairman of the Board



Manufacture of Food Products

At the Orkla group level, sustainability has been a focus since the beginning of this century, but in recent years the group made its most significant commitment in 2015, when it joined the UN Sustainable Development Goals and defined its priorities in this framework. Since then, sustainability has been increasingly integrated into the business development strategy, which is updated every three years. In Latvia, these issues became topical in 2017 and are also gradually playing an increasingly important role in all business processes. The five pillars of sustainability, further embedded in 17 activities, are:

- 01 **Nutrition and wellness;**
- 02 **Safe products (including both food and production process safety);**
- 03 **Sustainable raw materials;**
- 04 **Environmental responsibility;**
- 05 **Caring for people and society.**

These priorities are based on three main considerations: what the consumer demands (in the eyes of the manager of the company, these are considered “hygiene” or must-have factors, e.g. recyclable packaging has recently joined the list, but a safe product is always important), what trends the consumer is prepared to favour (these factors are linked to the ability to pay, but increasingly the consumer is prepared to pay more for a more sustainable product), and what the company can give back to society.

Work is currently underway on the new three-year strategy. It sets out several sustainability priorities, which are being addressed by working groups and monitored by the Innovation Department (which is responsible for corporate sustainability issues). Indicators to be achieved are defined for the targets, and the company regularly monitors their dynamics. For example, the current strategy sets targets

for CO₂ reduction, loss reduction and other goals, and quarterly data are collected in dashboards and results are communicated to employees. The targets are integrated into the individual annual targets of the heads of divisions and influence their overall performance.

At the end of the year, the company prepares a report on the results achieved for the group’s leading company, which uses this information as a basis for a sustainability report. At the local level, the company participates in initiatives that measure the performance of Orkla Latvija against other companies, such as the Sustainability Index.

As regards the integration of sustainability into business processes, it is integrated into the construction of production facilities, ensuring that new production facilities are built in a more environmentally friendly way and with a smaller CO₂ footprint, and it is also taken into account in the selection of suppliers and business partners. In the case of the sales networks, where Orkla itself is a supplier, the settings are largely the same and there are no complications for cooperation, but in the case of its suppliers, the company has defined basic requirements that every supplier must meet, as well as specific requirements in certain product groups. For example, suppliers of cooking oils or cocoa must prove that the product has been sourced responsibly with appropriate certificates.

Although the company does not see this as a threat to its operations, it has noticed that the financial sector is becoming increasingly focused on customer sustainability. In the case of Orkla, this pressure would not be as tangible, but it will undoubtedly have an impact on companies in the food industry and other sectors.

As regards the impact of COVID-19, the company acknowledges that sustainability priorities have not been altered by the pandemic, but that there have been changes in the market structure, facilitated by catering restrictions and requirements for the sale of food products to be weighed. This has led to an increase in the sales of packaged products, which had previously been declining, and this trend has led to a wider debate on the origin, quality and recycling of packaging materials.

.....

«Sustainability is a choice between strong short-term thinking and conscious long-term thinking. Companies need to address the dilemma between today's savings and long-term gains. However, external pressure is also increasing from investors, financiers, customers, and a long-term approach becomes inevitable.»

Jānis Bēseris, Head of Corporate Affairs



Retail Trade

The management of the company believes that sustainability is in the company's DNA, not an afterthought. Maxima Latvija purposefully developed its sustainability model in 2019, but it can be said that the newly developed approach formalised many of the processes that the company had already been implementing. The company has also adopted a Sustainability Charter. At the group level, this approach is based on the UN Sustainable Development Goals. Increased activity in this area in recent years has been driven by the fact that the group's leading company has started trading on the Vilnius and Dublin stock exchanges, and sustainability is an aspect of growing interest to investors.

The main areas of focus for the company are:

- 01 **People** – meaning both their employees and the wider community (including, for example, employee well-being, youth initiatives, customer and employee education on sustainability issues).
- 02 **Product** – its accessibility, safety, suitability for the needs of society.
- 03 **Planet** – the company's environmental impact and its mitigation where possible, compliance with requirements on packaging, deposit, etc.

The company's sustainability framework goes hand in hand with its strategy, which has a seven-year timeframe and is planned to be executed on an annual basis, setting appropriate priorities and performance indicators to be achieved for the relevant initiatives. In 2020, the company initially defined 42 measures, but due to COVID-19 these were revised prioritising 20-25. Each initiative defined in a given year is assigned an «angel» who is responsible for developing the initiative, involving and inspiring other colleagues. In the longer term, Maxima Latvija also plans to make its commitments to the year's goals public, demonstrating its readiness to take certain actions and knowing that the public will follow up on their implementation.

At the group level, the first sustainability report according to the Global Reporting Initiative (GRI) standard is published this year.

Internally, the company's incentive programme defines communication measures to raise awareness and employee engagement, while the annual objectives of department directors (including those related to annual bonuses) also include sustainability targets. The annual targets are based on a traffic light approach, defining how realistic it is to implement a given initiative, whether it has a clear responsible person and whether the necessary budget is available. Specific, measurable targets are also set for each initiative.

Sustainability issues are also integrated into the company's management processes, assessing whether a decision is in line with (and does not contradict!) the company's sustainability priorities. Integration of sustainability principles into the supply chain is also a constant effort – the Company has developed and approved the Code of Ethics and Conduct for its cooperation partners, in order to strengthen the highest standards of ethics throughout its supply chain. With due respect to the experience and knowledge of the NGO sector, Maxima Latvija in cooperation with the organisation Green Liberty organises trainings to its employees on responsible and sustainable procurement.

As mentioned above, the company reviewed some of its initial sustainability initiatives during COVID-19 but does not feel that the pandemic has changed the company's course in this area. In some areas, a sustainable and responsible approach has only become more essential, for example, regarding public health, young people's lifestyles (which have become less active with distance learning), etc.

.....
«In Latvia, we switched to fully green electricity in all our properties 5 years ago.»

Romāns Astahovs, Managing Director

VASTINT

Real Estate Management, Development of Commercial, Residential and Hotel Properties

Sustainability as the foundation of operation is not a new concept to the company: 30 years ago, the company started thinking about how to build buildings that it would want to keep in its own portfolio for the next 10, 30 or more years. This influences decisions about the buildings themselves, as well as site selection or decisions about when to develop new sites and when to renovate valuable historical buildings.

In 2012, the company set up an internal working group, which devoted three years to formulate a sustainability strategy for the company: one that was not artificial, but rather based on the principles and core of what the company does. The company reviews the relevance of the strategy every year and adds new aspects where necessary, but the key lines of action remain:

- 01 **Building performance** – regular analysis of the energy consumption for water, heating, etc., improvement of energy efficiency of buildings, use of renewable energy sources;
- 02 **Safety** – fire safety, structural safety, periodic risk assessment, training for tenants;
- 03 **Ethics** – the code of conduct of the company;
- 04 **Building certification** – mainly according to international LEED or BREEAM sustainability certification systems.

The principles defined play an important role in cooperation with contractors, including builders, material suppliers, service providers. In the construction sector, the company demands quality that meets the requirements of the international certificates, which entail stricter conditions for processes, not only in the construction itself, but also, for example, in the areas of construction waste disposal, waste sorting, etc. And experience shows that while a few years ago it was the company's own objective to comply with the certification requirements, now it is increasingly demanded by tenants, for whom environmental performance is becoming more and more important when choosing an office location.

Financial institutions are also increasingly demanding sustainability, as in real estate this has a major impact on the long-term value of assets.

Vastint has only recently started to develop a sustainability report to communicate the company's performance to the wider public and has not based its report on any international standards but has formulated its own requirements for communicating the company's sustainability performance through a working group of employees from several countries.

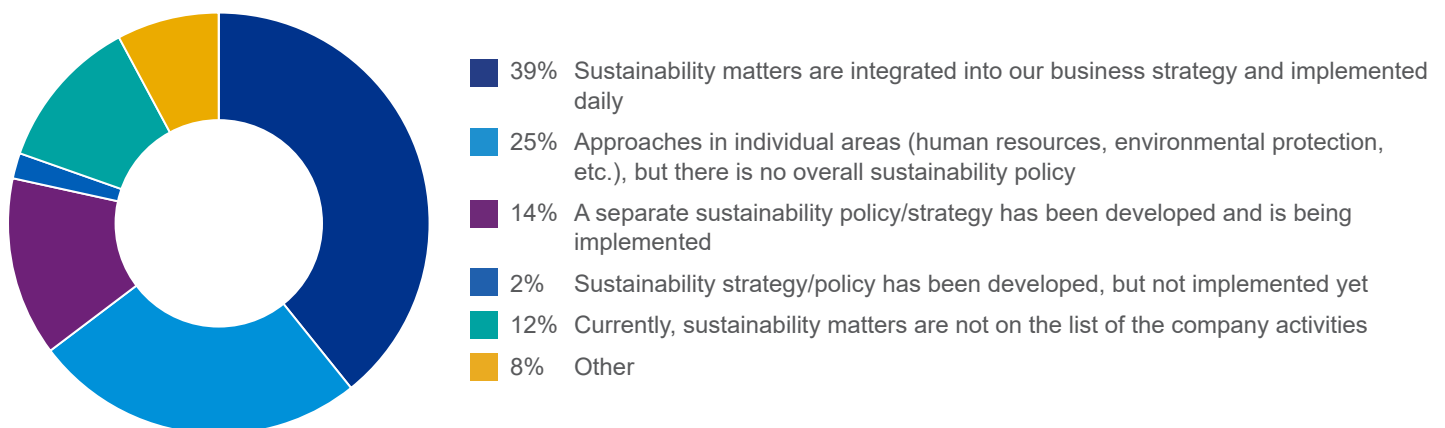
Perception of sustainability by Latvian business

As a part of this report, a survey was conducted among both FICIL members and local capital companies, including state and municipal capital companies. 51 companies participated in the survey, representing manufacturing, trade, transport infrastructure and transportation services, energy, financial services, real estate, telecom and other industries.

When indicating how sustainability is integrated into their company's strategic planning, 39% of the respondents stated that it was integrated into their business strategy and implemented on a daily basis, while 16% had a separate sustainability policy or strategy that was either actively implemented or planned for implementation. 25% indicated that a sustainability approach was implemented in some areas (for example, employees, environmental protection, etc.), but was not consistently integrated into the business strategy and the company had no

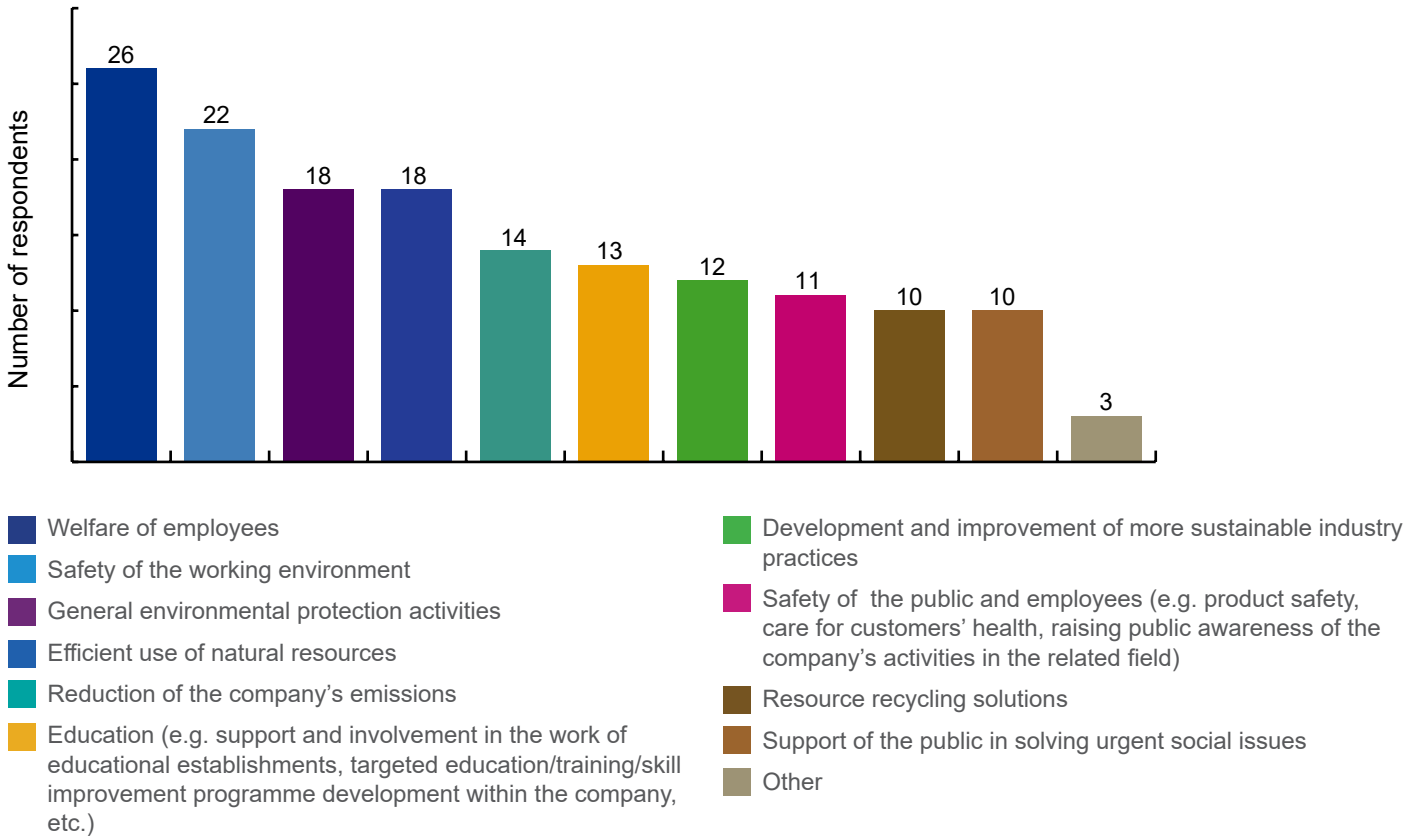
comprehensive sustainability strategy. 12% stated that sustainability matters were not a current part of the company's activities. Elaborating on their answers, some respondents stated that: 'the areas to be improved are setting specific goals and achieving them consistently, setting priorities', 'sustainability matters are a part of the company's daily practice without any special strategic planning', and 'sustainability matters are integrated into their group's medium-term strategy and structural unit targets, but lack a common vision; the process is being improved'. In addition, some respondents noted that strategic planning did not include any sustainability aspects, as their integration into the company's activities had not yet been internally defined, the company shareholder did not require sustainability to be included in the strategy and goals and prioritising sustainability matters was too expensive from the company's point of view.

How is sustainability management integrated into your company's strategic planning?






The key areas of sustainability that companies focus on most often are employee well-being and work safety, as well as several issues related to environmental protection, use of resources, etc. These are followed by activities related to society more broadly.

What are the key sustainability areas your company focuses on?



The choice of these areas is mostly related to the nature and development of the company's main business (53%), but areas in which the companies had more experience (22%) or areas required by external regulations (20%) were also often selected. Relatively few respondents (4-8%) answered that they focused on areas where they felt demand from financial institutions, society or customers.

According to the survey results, the coordination of sustainability matters in companies with different organisational structures was assigned to different departments:

 BUSINESS DEVELOPMENT	 COMMUNICATION	 PRODUCTION	 FINANCIAL MANAGEMENT	 QUALITY MANAGEMENT	 CUSTOMER MANAGEMENT	 INVESTOR RELATIONS
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What are the greatest challenges you face in development of your sustainability report?



Complicated to gather the necessary data on performance in sustainability areas



Development of the report requires too much time and effort



Hard to define the sustainability areas our company should report on



Lack of information or knowledge on standards / principles to base the sustainability report on










Lack of internal buy-in within the organisation

53% of respondents apply sustainability principles in both their activities and relations with suppliers and partners with 16% having developed requirements for supplier and partner selection and supervision and regular verification of compliance with these requirements. However, it should be noted that these responses were only recorded among foreign capital companies and individual state capital companies. 10% stated that they include information about supplier compliance with sustainability requirements in their contracts and that suppliers had to prove their compliance with the requirements, but this was not verified in any meaningful way. 28% admitted that they discussed these matters with their partners, but did not introduce any specific measures.

41% of respondents stated that they drew up and published an annual sustainability report and most did this in accordance with one of the internationally recognised standards or guidelines (Global Reporting Initiative, UN Sustainable Development Goals, etc.). In some instances, reports were drawn up in accordance with a standard binding for the company, e.g. an environmental standard.

In enumerating their greatest challenges in preparing reports, companies stated that it was difficult to gather the necessary data and that the report required considerable time and other resources. It is also difficult to determine which areas of sustainability a company should report, and there is a lack of information and knowledge on the principles of a sustainability report. Similar arguments prevailed in responses from companies which do not yet prepare any sustainability reports.

When asked about the benefits generated by company investments in sustainability, the respondents named the following aspects in order of priority:

-  Better business development in the long run
-  Better reputation
-  Possible access to financial and other resources
-  Possible reduction of risks relevant to the company
-  Financial gains for the company's business in the long run, including cost cutting in areas where a more sustainable and resource efficient business model has been created
-  Overall a more stable and predictable business environment
-  More positive cooperation with company stakeholders.

In terms of access to financial resources, 37% of respondents stated that they were either unaware of the requirements that the financial sector might impose in the near future or knew about them in general, but did

not know any specific requirements. However, most of the respondents (43%) admitted that they already felt an increasing interest from financial institutions in terms of sustainability matters.

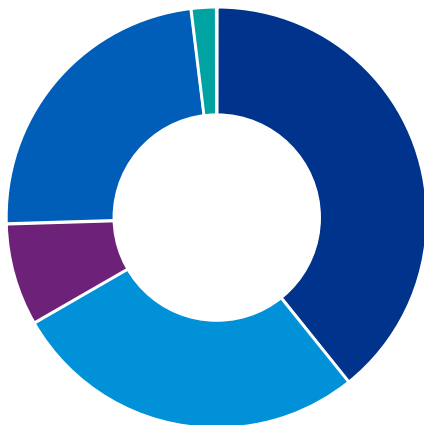
According to the EU regulations, financial institutions (banks, other financiers, investors, etc.) will soon start taking more interest in whether companies do enough to address and solve their sustainability issues. Is your company prepared for this?



Thus, companies need more information about changes in the requirements, but as to what companies expect from the government, most respondents stated that they needed a long-term vision of priority areas, incentive measures that would not make more sustainable companies less competitive than others (or *vice versa*),

and predictable and stable governance with as few changes as possible. The lowest number of respondents (8%) stated that the government should provide financial incentives for the development of a more sustainable economy.

What do you mainly expect from decision-makers in making the Latvian business environment more sustainable?

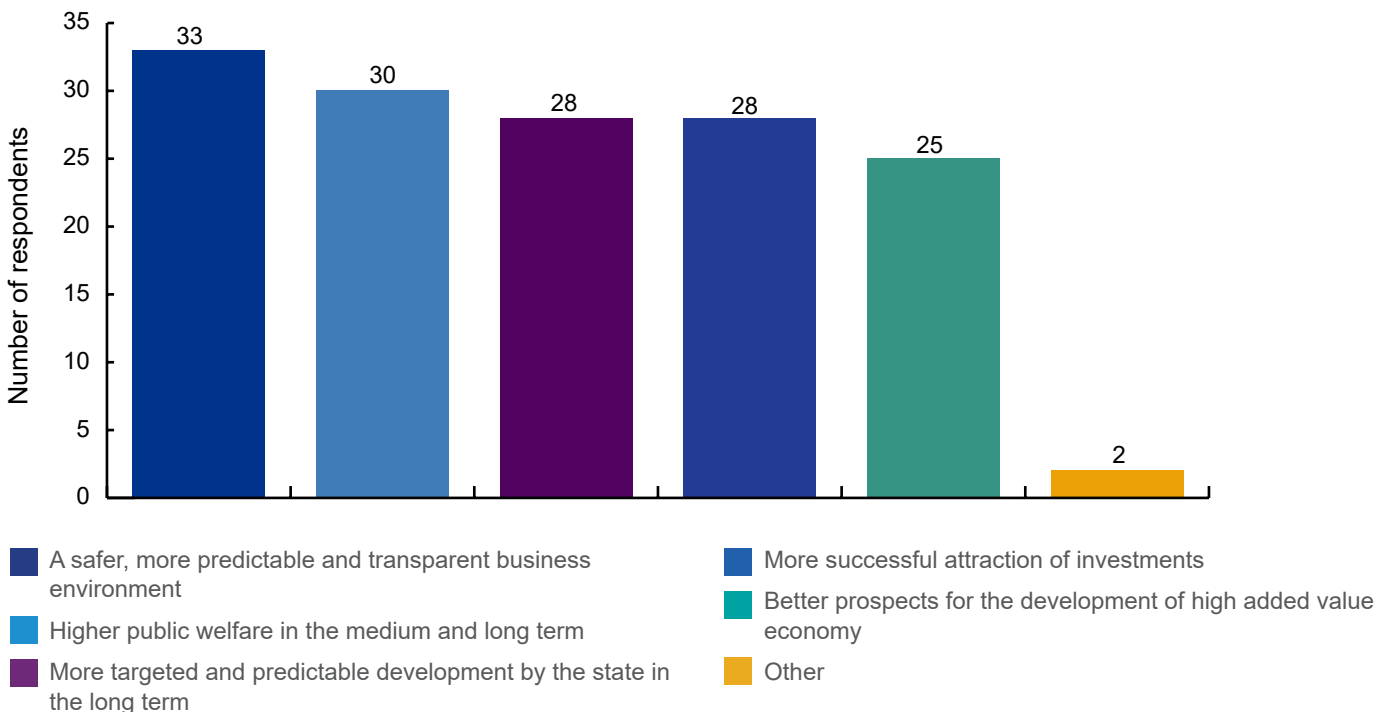


- 39% A long-term vision of priority areas and government involvement in their development
- 27% Stimulation measures (e.g. through procurement regulation), which will not harm the competitiveness of sustainable companies/will improve their competitiveness (for example, in tenders)
- 8% Efficient distribution of available financial resources, investing resources in areas that would promote sustainable development of the economy
- 24% A predictable, stable business environment regulation with as few changes as possible
- 2% Other

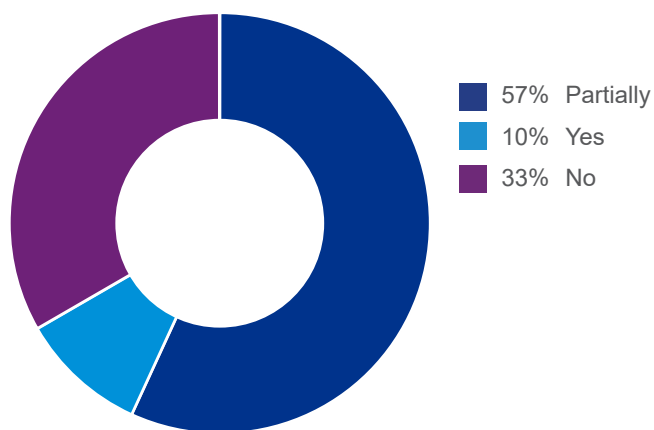


At the same time, from the point of view of the public sector, respondents mentioned the following points as the main benefits for companies investing more in sustainability:

What do you think the country would gain if businesses invested more in sustainability?

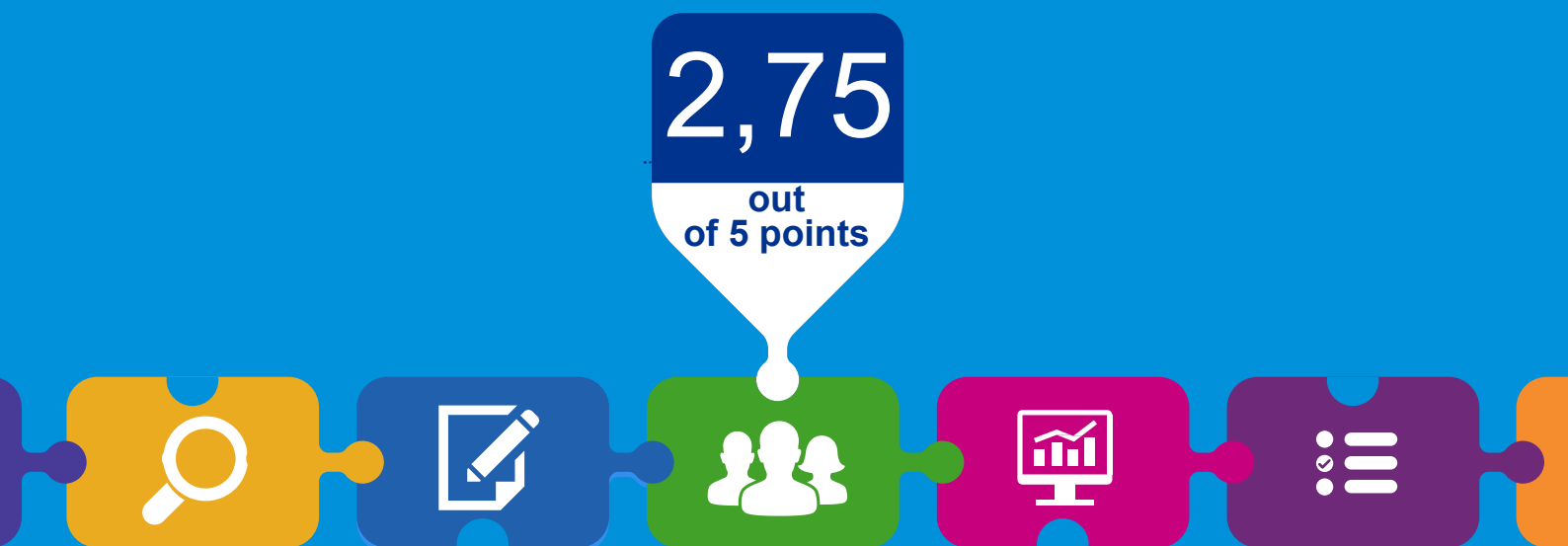


In your experience to date, does the public sector have sufficient understanding and knowledge of the European Union Green Deal, sustainability goals and priorities?



However, 57% admitted that currently there was only partial understanding of the EU Green Deal, sustainability goals and priorities in the public sector, while 33% of respondents believed that there was no such understanding in the public sector yet.

The respondents gave their current cooperation with the public sector an average score of **2.75** out of 5 points, but their understanding of what the public sector expects from companies in terms of sustainability and the green economy was rated even lower - at 2.57 points. Moreover, private companies with local capital were relatively more unsympathetic.



It is significant that 49% of the survey respondents represented foreign capital companies, 27% – local capital private companies and 24% – state or municipal capital companies. The majority or 39% of the surveyed companies have 50-249 employees; the rest are divided into three similar groups (1-49, 250-1,000 or more than 1,000 employees).

The biggest challenges in the development of green financing are understanding, data availability and quality

Finance Latvia Association comment

Understanding the risks associated with investing in different industries, as well as the effects of strengthening regulation, credit institutions in Latvia are already talking to their customers about their companies' impact on the environment, corporate governance and social aspects much more than ever before. For 2-3 years, major Latvian banks have already been asking customers about sustainability in addition to their financial situation. So far, the main focus has been on governance, taxes and human resources, but now it has shifted to environmental and climate factors, as well as the way companies act to reduce their negative and increase their positive impact.

Bank experts have developed internal tools that allow them to assess their customers from this perspective. However, seeing that the European Central Bank and European Banking Authority are starting to demand more objective and detailed data, Latvia has also started work both to educate customers and promote data availability, in order to develop their ESG tools and improve the accuracy.

Any company wishing to get funding for its business and development should be able to provide information about and explain its current greenhouse gas emissions and their sources, as well as a clear investment plan for areas where they plan to reduce emissions. This might involve optimisation of energy consumption, transport solutions, product design, implementation of circular economy principles in their business and much more. However, it should be noted that very few companies would be able to provide such information now.

There are two types of challenges – first, companies do not have any detailed or sufficiently accurate data on their climate impact, and second, there is no data allowing to compare companies with their industry peers in Latvia and abroad in order to see whether investment in the company would be a high or low risk, taking into account its performance or CO₂ level. Of course, companies participating in the emissions trading system, foreign capital companies and export companies whose supply chains already request similar data are in a relatively better position. However, small and medium-sized enterprise (SME) segment working mainly in the local market will face the greatest challenges in the coming years. Climate change issues have not been as urgent for SMEs, but, with requirements and regulations evolving, these companies will also have to think about data gathering, analysis and availability if they wish to obtain financing. Until now, sustainability has been voluntary rather than a matter of competitiveness or market advantage, but things are changing now and this will increasingly become a prerequisite for the development of smaller companies as well.

However, recently a trend has been observed for medium-sized customers to ask their banks what steps they should take towards sustainability to maintain and improve their financial standing. It should also be noted that the development of a sustainability policy alone will not be sufficient: it is definitely a step in the right direction, but the policy or strategy should be followed by specific activities aimed at reduction of any negative impact.



Companies have to take into account that credit institutions already have guidelines covering inherent risks for each industry and segment and use them to determine what customers they are willing to continue the successful cooperation with and which ones first have to contribute some effort in order to reduce challenges related to the industry or business specifics. At the same time, the financial sector clearly acknowledges that data based sustainability analysis is new to both client and the banks, therefore development will be gradual and based on mutual cooperation. Client managers increasingly talk about these issues with their customers and try to help them understand why and how to address specific environmental, social or governance issues. In addition to the already mentioned information, we talk a lot about how companies generally need to improve their understanding of the risks of climate change and so-called transition approaches, to establish clear governance and determine who in the company will deal with and be responsible for these matters and to start gathering data on its current impact to draw further conclusions regarding the necessary actions aimed at minimising risks.

It should be noted that as of 2022, banks will have to report on what is the share of green assets in their portfolio, so it is reasonable to expect that competition for financing green projects will increase and banks will offer better prices and financing opportunities to such projects. However, companies themselves have to take into account that, in addition to the usual financial indicators, credit institutions already factor in and will continue to compare other indicators, such as production intensity, resource consumption and other data.

In terms of data availability and quality, there is still a long way to go. One of the most important documents to be used in the coming years for evaluating funding opportunities will be the EU Taxonomy. However, summarising the necessary data for industries and segments will be very inefficient if done by each bank separately. That is why the banks look to the public sector with hope, as it should be able to offer databases with comparable data. For example, there is an already identified problem stemming from the EU Taxonomy – it requires financed property to either have Class A energy efficiency or be among the 15% most energy efficient properties in the country. However, there is no aggregated data on real estate segment covering this requirement or the data is highly decentralised, thus it is impossible to establish objectively if a specific property belongs to the top 15%.

In this context, the financial sector would expect the public sector to educate themselves and the general public on sustainability matters, provide a strategic vision at the national level (including appointment of one responsible institution coordinating and ensuring that regulations adopted in various fields – such as transport, agriculture, production, environment, etc. – facilitates achievement of the national targets; we already see that there is no clear vision or understanding on financing required to achieve certain targets), and solve the aforementioned issue of data availability.

FICIL policy planning recommendations for the development of a sustainable economy

Based on the conducted survey and information provided by FICIL members, FICIL has drawn up the following recommendations for policymakers:

In the public sector, continuously develop understanding of sustainability, the role of businesses in the development of a more sustainable economy and the tools with which the state can promote investment and activity of companies in this field

Ensure clear, comprehensible and information based strategic planning at the national level. Although various policy planning documents have been drawn up, they often do not set any clear development priorities but rather try to cover as many areas of activity as possible. Moreover, the planning documents do not provide any clear mechanisms or measures to achieve the set goals

Ensure a stable and predictable regulatory framework that allows relying on specific policy provisions in the long run

Take measures to ensure that comprehensive analytical data is used for policy planning and compliance monitoring, rather than assumptions about which policies are more likely to attract funding as a basis for planning

Targeted public investments in the development of a sustainable economy (based on priority action areas, which are to be defined as mentioned above)

Improve the public governance structure and levels of accountability: currently, the public administration is highly fragmented, which results in very generalised policy planning and supervision and creates difficulties for businesses whose representatives often have to deal with similar matters within a number of different departments

Develop the public procurement regulation to reduce the gap between it and the need to support a more sustainable economy (in procurements, more sustainable companies can often be at a disadvantage versus less sustainable companies that do not invest in human resources, environmental solutions, etc.)

Find effective and targeted solutions to combat the shadow economy and the grey area, as it holds back the development of a more sustainable business environment overall and creates a competitive gap, as described above

Define a clear national policy for cooperation with third countries (including, for example, extraction of raw materials, import of goods, trade, etc.) which have not set clear climate goals or created roadmaps to combat climate change

Seek a solution to the problem of data availability and quality for different segments and sectors of the economy in terms of their sustainability and comparability

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