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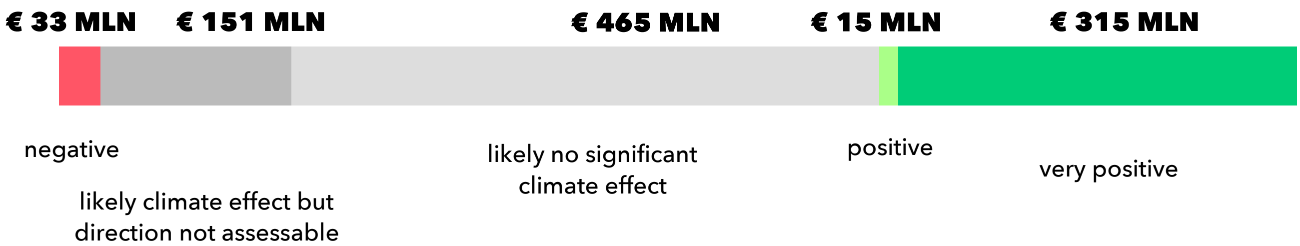
GREEN RECOVERY TRACKER REPORT: ESTONIA

On March 5, the Estonian government published the planned allocation of recovery funds through the EU Recovery Facility to different measures, along with rather brief and general descriptions of the measures, but not a full Recovery and Resilience Plan. An updated version of this overview was released in May 2021, which includes a higher share of green spending (an increase from 25% to 33%), mostly due to the removal of measures with no climate relevance. A week of public consultations for selected measures that took place in March 2021 provided little additional information. Overall, we find that the planned measures, with investments of €1.0bn (4% of Estonia's GDP (2019)), can make a positive contribution to the green transition, though more information on the specific implementation of the measures will be necessary for a final assessment. Our analysis identifies the following spending shares:



Many measures aim to support the green transition, most notably by establishing a green fund for companies' green transition and including investments into energy efficiency, the energy grid, storage and renewables. However, due to a lack of details on measures and their implementation, there is a risk that several measures could adversely affect the green transition.

In focus: Green Spending Share

We find that Estonia's latest draft recovery plan (RRP) achieves a green spending share of 33%, below the EU's 37% benchmark. Furthermore, we find that 15% (€151m) may have a positive or negative impact on the green transition depending on the implementation of the relevant measures, illustrating the importance of further scrutiny during the further planning, review and implementation of the recovery measures.

Our calculation of the green spending share aims to mirror the approach used for the official assessment of national recovery plans, which distinguishes between measures contributing fully to climate mitigation (100% coefficient) and measures contributing partly (40% coefficient). Therefore, we fully count "very positive" measures towards the green spending share, while "positive" measures are weighted using a coefficient of 40%, which is applied to the associated costs. All individual assessments can be accessed via the country page on our website.

OUR HIGHLIGHTS

Good Practice

Support for enterprises in the green transition

Estonia's draft RPP allocates €100m to a green fund which will provide investment support to companies that develop technologies for the green transition.

Bad Practice

Lack of effective climate conditions

Some measures included in the draft RRP could potentially undermine the Green Deal. Due to the low level of detail provided about the measures, it cannot be ruled out that many of the proposed measures include only weak climate conditionalities that support the growth and longevity of resource-intensive and polluting companies and sectors. These measures include, for instance, supporting firms' export capacity, adopting innovative and resource-efficient technologies, supporting more effective use of bioresources and constructing a new transport terminal for Rail Baltic.

To Our Surprise

Analysing the climate and environmental impact of digitalization

The Estonian Ministry of Economic Affairs and Communication has commissioned a study that will analyze the climate and environmental impact of digitization policies. The study will be finalized at the end of 2021 and will help Estonia choose the least environmentally harmful path towards digitalization.

KEY FOCUS AREAS OF THE ESTONIAN RECOVERY DEBATE AND THE RECOVERY PACKAGE

The Estonian government is combining the funding available through the EU Recovery Facility with other EU funds to finance the long-term priority areas outlined in its general national strategy "Estonia 2035". These priority areas are 1) smart specialization, 2) green development, 3) regional connectedness, 4) social cohesion, and 5) people-centred governance. The recovery debate is therefore closely linked, and often overshadowed, by more general strategic discussions regarding the country's long-term economic development. There have been separate measures that were agreed as immediate crisis response steps, such as unemployment benefits, wage subsidies, and direct state aid for the most effected sectors.

FINANCING AND ADDITIONALITY OF ESTONIA'S RECOVERY PACKAGE

Short-term crisis response measures have been provided through a supplementary domestic budget. The volume of the supplementary budget is €641m, which is covered by a loan that falls within a €8bn loan limit approved in December 2020. No taxes have been raised for the purpose of financing the recovery measures. According to the government, the supplementary budget will not permanently increase the expenditure of the state budget.

Long-term economic development measures have been funded through RRF, MFF, REACT-EU and the Modernisation Fund. However, it is difficult to distinguish between recovery measures and other measures in the allocation of these funds because there is no single "recovery package" and the national Recovery and Resilience Plan (RRP) is mostly used to support the broader economic development strategy. Our analysis focuses on the RRP as it is the single element most closely linked to the economic recovery debates.

GOVERNANCE OF THE RECOVERY PACKAGE

The recovery measures are aligned with the general national strategy "Estonia 2035", including one of its five priority areas "Green Estonia". The strategy includes rather vague environmental and climate targets such as climate neutrality by 2050 and the UN Sustainable Development Goals. The measures are not linked to any legally binding acts other than what has been imposed by the EU level.

According to the government, the minimum share of 37% climate expenditure in the RRP is achieved. However, due to missing information on the specific projects that will be supported, there are significant uncertainties over many measures, including on their actual contribution to climate action and on whether some measures may even have a negative climate and environmental impact due to weak or unspecified conditionalities. Also, it seems that different ministries have diverging understandings of what the "do no significant harm" principle entails and to what extent the EU Taxonomy should be adhered to, with the Environment Ministry being significantly more aware of the importance of this than other ministries. Environmental organizations have suggested that for measures defined as 'green', the strict EU Taxonomy criteria should be set as a standard.

NOTEWORTHY SHORT-TERM LIQUIDITY AND STATE AID DECISIONS ("COMPANY BAIL-OUTS")

The government passed a €641m supplementary budget that was used to enable general support measures for individuals and entities hit by the crisis. The more prominent cases of state support include €20m in support for international passenger ferry operators operating out of Estonia, and €30m for a share capital increase and subsidized interest loan to the state-owned aviation company Nordica.

GREEN RECOVERY TRACKER

ANNEX: MOST IMPORTANT MEASURES OF THE RECOVERY PACKAGE BY SECTOR

Sector	**Most important measures with effect on green transition**
Energy	• Investments into energy grid, storage and renewables (€45m, very positive) • Pilot projects for green hydrogen (€50m, very positive)
Mobility	• Rohuküla railway construction (€34m, very positive) • Rail Baltic terminal construction (€31m, likely climate effect but direction not assessable) • Tallinn Old Port tram line construction (€26m, very positive)
Industry	• Green fund for companies' green transition investments (€100m, very positive) • Support for increasing the export capacity of enterprises (€33m, negative) • Support for more effective use of bioresources (€38m, likely climate effect but direction not assessable)
Buildings	• Increasing energy efficiency of buildings (€47m, very positive)

This report was written by Silver Sillak and Uku Lilleväli (Friends of the Earth Estonia - Estonian Green Movement) and Felix Heilmann (E3G). We are grateful to the Estonian Fund for Nature and to Magdolna Prantner (Wuppertal Institute) for providing valuable inputs.

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