Understanding the Demand for Retail Sustainable Finance in Estonia

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EXECUTIVE SUMMARY

This report presents findings from research conducted by the Institute of Baltic Studies (IBS), in collaboration with the Sustainable Finance Observatory (formerly the 2° Investing Initiative, 2DII), on the demand-side dynamics of Estonia's sustainable retail investment market. The project was supported by Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) on behalf of the German Federal Ministry for Economic Affairs and Climate Action (BMWK), under the European Climate Initiative (EUKI). The work complements related studies conducted simultaneously in Romania and Bulgaria.

The bigger picture: private capital for a green transition

Mobilising private capital is essential for achieving Europe's green transition. Public funding alone cannot deliver the scale of transformation needed to meet climate targets, and retail investors represent a largely untapped reservoir of sustainable finance. Yet despite years of political momentum, regulatory frameworks, and public discourse around sustainability, private investor engagement remains limited.

Recent years have even seen growing scepticism. Some green-labelled funds, particularly narrowly focused clean energy strategies, have underperformed, undermining confidence. Amid inflation and economic volatility, investors appear increasingly cautious, shifting focus from ideals to financial resilience. Understanding this dynamic is critical to aligning policy and product innovation with real investor behaviour.

Objectives and scope

The research explores how Estonian retail investors perceive and engage with sustainable investing, with a specific focus on values, financial goals, knowledge, and barriers to action. The report focuses solely on the demand side, while supply-side issues (e.g., advisor practices, product availability) are addressed in separate publications.

Methods

The research integrates qualitative and quantitative methods:

- A nationally representative survey of 1,000 Estonian retail investors and an additional focused subsample of the top 10% of income earners (N = 200).
- 20 semi-structured interviews and 2 focus groups to explore nuanced investor attitudes and decision-making in more detail.

Key findings at a glance

Estonia's retail investors express growing interest in sustainable investing, but their actions fall short of their intentions. Knowledge remains shallow, trust is fragile, and actual uptake is still modest. Key insights:

1. **Many private individuals want to invest sustainably, but few actually do**
   Over half (54%) are aware of sustainable financial products, and 49% say they intend to increase such investments in the next three years. Yet only 22% currently hold any sustainable financial products.
2. **Understanding of sustainable finance is limited**
   Only 16% of survey respondents correctly defined the ESG acronym, and 61% mistakenly believe that all "sustainable" funds in the EU meet uniform government standards. Many confuse ethical preferences with actual impact.
3. **Allocations to sustainable products are shallow**
   Even current ESG investors allocate less than 40% of their portfolios to such assets, often relying on incidentally sustainable instruments (e.g. pension funds) rather than making intentional choices.
4. **Performance concerns are common**
   37% of survey respondents expect ESG products to underperform conventional funds; only 14% expect better returns. Views on fees and risk vary widely and often depend on how products are described.
5. **High interest in learning, but digital-first**
   64% of investors want to learn more, especially via self-directed, digital formats like e-learning, social media, and fund websites. Traditional face-to-face channels rank lowest.
6. **Market potential is real, but not guaranteed**
   Under ideal conditions, Estonia's sustainable investment potential is estimated at €10.4 billion, involving 155 thousand investors. However, macroeconomic stress and trust gaps make this far from certain.

Contextual considerations

- Macroeconomic concerns dominate the list of priorities for private individuals: Only a small percentage of Estonians cite environmental issues as a top national concern, with inflation remaining the leading issue.
- In May 2025, Estonia's LHV Asset Management closed its green pension fund range, citing a lack of scale and underperformance, mirroring declining interest in stricter green funds (Article 9) of retail investors across the EU.
- As interest rates and risk premiums rise, investors appear to reprioritise financial resilience over ethical commitments.

These trends show a critical fragility in the current ESG landscape. Self-declared interest in green investments remains high, but durable participation may depend on financial returns and simplicity, not ideals alone.

Strategic implications

Closing the intention–action gap in retail sustainable finance will require reframing, simplification, and diversification. This section offers a more in-depth roadmap for investors, financial institutions, and policymakers alike.

1. Reposition ESG as risk management, not morality

Sustainable investing must be framed not as a sacrifice or a charitable act, but as a core strategy for long-term financial resilience. ESG criteria can help manage reputational, regulatory, and transition risks, particularly in sectors vulnerable to climate legislation or resource constraints.

Messaging should reflect this repositioning: “Sustainability is not idealism, it’s prudence.”

2. Clarify the Landscape of Green Funds

The “green” label spans a wide range, from diversified, ESG-screened global equity funds (relatively low risk) to niche thematic products like clean tech or renewable energy (higher risk).

Some narrowly focused funds have recently underperformed, skewing public perception. Stakeholders must communicate this diversity more transparently, helping investors choose products aligned with their risk tolerance and impact expectations.

3. Simplify Communication and Reduce Jargon

Investors are confused by ESG terminology, labels, and competing narratives. Communications should:

- Avoid acronyms and technical terms unless clearly explained.
- Use visuals and practical examples (e.g. “This fund excludes coal and tobacco”).
- Standardise language across fund documentation and advisory services.

Conclusion

Estonia’s sustainable investment market shows clear promise, but also clear barriers. Investors are curious, cautiously optimistic, and value-driven, but they need simpler, more trustworthy, and better-framed options.

LIST OF ABBREVIATIONS

Abbreviation	Definition
2DII	2° Investing Initiative
AI	Artificial Intelligence
BMWK	Bundesministerium für Wirtschaft und Klimaschutz (Federal Ministry for Economic Affairs and Climate Action, Germany)
E	Estimated demand coefficient (used in market sizing formula)
ESG	Environmental, Social, and Governance
EU	European Union
EUKI	European Climate Initiative
ETFs	Exchange-Traded Funds
FSC	Forest Stewardship Council
IBS	Institute of Baltic Studies
IDD	Insurance Distribution Directive
ISF	Institute of Financial Studies
ISO	International Organization for Standardization
MiFID	Markets in Financial Instruments Directive
N	Sample size
OECD	Organisation for Economic Co-operation and Development
SFDR	Sustainable Finance Disclosure Regulation
SF AP	Sustainable Finance Action Plan
S	Share of current sustainable investments (used in market sizing formula)
P	Proportion planning future sustainable investments (used in market sizing formula)
M	Margin of error (used in market sizing formula)
UN	United Nations

INTRODUCTION AND METHODS

This report presents the findings of a research project conducted by the Institute of Baltic Studies (IBS) in cooperation with the Sustainable Finance Observatory (previously 2° Investing Initiative, 2DII) to investigate the demand side of Estonia's sustainable retail investment market. The study aims to better understand how Estonian retail investors perceive, engage with, and prioritise sustainability within their financial decision-making. The research was designed to capture a nuanced view of investor preferences, motivations, and knowledge levels regarding sustainable finance. The study was conducted simultaneously and in collaboration with the Institute of Financial Studies (ISF), the Association of Romanian Financial Services Users (Romania) and the Association of Bulgarian Investor Relations Directors (Bulgaria). The "Primary Donor" is the Deutsche Gesellschaft für Internationale Zusammenarbeit acting on behalf of the German Federal Ministry for Economic Affairs and Climate Action ("BMWK") – European Climate Initiative ("EUKI").

The project aims at supporting the implementation of the EU Sustainable Finance Action Plan, with a focus on supervision, product marketing and distribution (Action 4 SF AP, MiFID and IDD regulations) and the flow of retail investor savings for financing the transition to a carbon neutral economy. Outputs developed by 2DII in the context of several German and EU projects were transferred to Estonia, Romania and Bulgaria, including successfully pilot-tested methodologies for consumer research, mystery shopping visits, analysis of environmental impact products and industry guidelines as well as a retail investor platform on sustainable finance and a new greenwashing knowledge hub platform.

The report focuses exclusively on demand-side dynamics, including investor beliefs, awareness of sustainable investing, and their associated financial goals. It does not include product supply or advisor behaviour analysis, which are addressed in a separate report[1].

Earlier reports by 2DII have highlighted an attitude–behaviour gap that has been documented elsewhere in the EU. For instance, Brouard and Dubois (2023) show that although 65% of Belgian retail investors say they "care about sustainability", only 18%

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[1] Kirill Jurkov, Tarmo Kalvet, Marek Tiits, Maris Pihelgas. 2025. Assessing the Supply of Retail Sustainable Finance in Estonia. Tartu: Institute of Baltic Studies.

actually hold a sustainable fund.[2] This means that high professed interest does not automatically translate into investment choices. This issue was also explored in the Estonian case.

The research combines multiple qualitative and quantitative methods.

Focus group interviews: Two moderated focus groups were conducted with participants (N = 11) selected to reflect a mix of investment experience and interest in sustainability. Both sessions followed a structured discussion guide and began with the screening of an informational video explaining three investment objectives:

1. Aligning investments with personal values (Value-Alignment)

2. Creating a positive societal or environmental impact (Impact)

3. Maximising financial returns for a given level of risk.

Participants were asked to identify and rank their investment objectives, reflect on the clarity and persuasiveness of the video, and discuss trade-offs between financial and non-financial objectives. The group format facilitated interaction, with individuals responding to and building on each other's views.

Focus group interviews followed a semi-structured approach. Both sessions were conducted using a standardised interview guide, while also allowing for a natural flow of the discussion. Responses were audio-recorded with consent, anonymised, and transcribed for thematic analysis. Participants were asked the same core questions, with prompts used as necessary to encourage elaboration.

Bilateral interviews: Complementary one-on-one interviews (N = 20) were conducted to delve deeper into personal perspectives and decision-making rationales. Like the focus groups, interviews addressed participants' interpretations of value-alignment and impact, perceived trade-offs, and expectations for sustainable financial products. The individual setting allowed for more candid and detailed expressions of personal attitudes and experiences. However, the interview participants were not shown a video. All other procedural operations were the same as for the focus group interviews.

Quantitative survey: The survey was nationally representative of Estonian retail investors (N = 1000) and was designed to measure investor preferences, behaviours, and understanding of sustainable investment concepts. Additionally, it included a targeted

[2] Sustainable Finance Observatory. 2023. *Moving the Blockers of Retail Sustainable Finance in Belgium*. https://sustainablefinanceobservatory.org/wp-content/uploads/2023/08/Moving-the-blockers-of-retail-sustainable-finance-in-Belgium.pdf.

subsample of 200 respondents drawn from the top 10% of income earners[3] to compare responses across wealth segments. The survey instrument captured demographic and psychological factors, sustainability preferences, risk attitudes, financial literacy, and responses to educational interventions such as an explanatory video.

The following chapters present the key findings from this research. Chapter 1 provides an overview of retail investor demographics and descriptive features of their financial knowledge, risk behaviour, and personality traits. Chapter 2 explores the level of awareness and understanding of sustainable investing concepts among Estonian retail investors. Chapter 3 examines how sustainability objectives align or conflict with broader financial goals. Finally, Chapter 4 places the results of this study in the context of the state of sustainable investing in Estonia and the world. The report ends with Conclusions.

The report is authored by the team at IBS, with valuable contributions and feedback from members of the Sustainable Finance Observatory team. We are grateful to David Cooke, Nicola Koch, and other colleagues whose input significantly enhanced the quality and clarity of the work. We would also like to express our sincere thanks to all individuals who participated in the survey and contributed to the focus groups. Their time, openness, and insights were essential in enabling us to produce a report grounded in extensive empirical material and enriched by a nuanced understanding of the field. Your contributions played a key role in shaping the analysis and ensuring its relevance to both research and practice.

[3] Official data on salaries in Estonia shows that the top 10% wealthiest individuals fall into the 3,500–3,999 euro monthly salary range category. The survey was modified to capture this wealthiest segment by asking them to state individual incomes, in contrast to the main sample, which reported household income. *Statistics Estonia*, 2024. Accessed May 13, 2025. https://palgad.stat.ee.

1. RETAIL INVESTORS' BACKGROUND

1.1. Socio-demographic background

This chapter provides an overview of the sample. The main socio-demographics are presented in Figure 1. The 1,000-person survey sample is evenly split by gender, with roughly 500 women and 500 men. Age is well represented across the six brackets, but concentrates in the middle of the distribution: categories 2–4 (mid-20s to mid-50s) account for the bulk of respondents. At the same time, the youngest and oldest groups are smaller. Nearly half of the participants come from Northern Estonia (Region 1), with Southern Estonia (Region 4) forming the next-largest bloc, and the remaining regions, Central, West, and North East Estonia (2, 3 and 5, respectively), making up a modest minority.

Educational attainment is skewed toward school qualification and Bachelor's degree levels (categories 2 and 3), with smaller shares holding either very low or advanced degrees. Reported income forms a bell-shaped curve peaking around category 5 (2,000€–3,000€), indicating predominance of middle-income households – whereas investable assets are more unevenly distributed: the lowest asset bracket (category 1: below 900€) contains the largest cluster, and the counts taper steadily across higher brackets, reflecting an extended-tailed wealth profile.

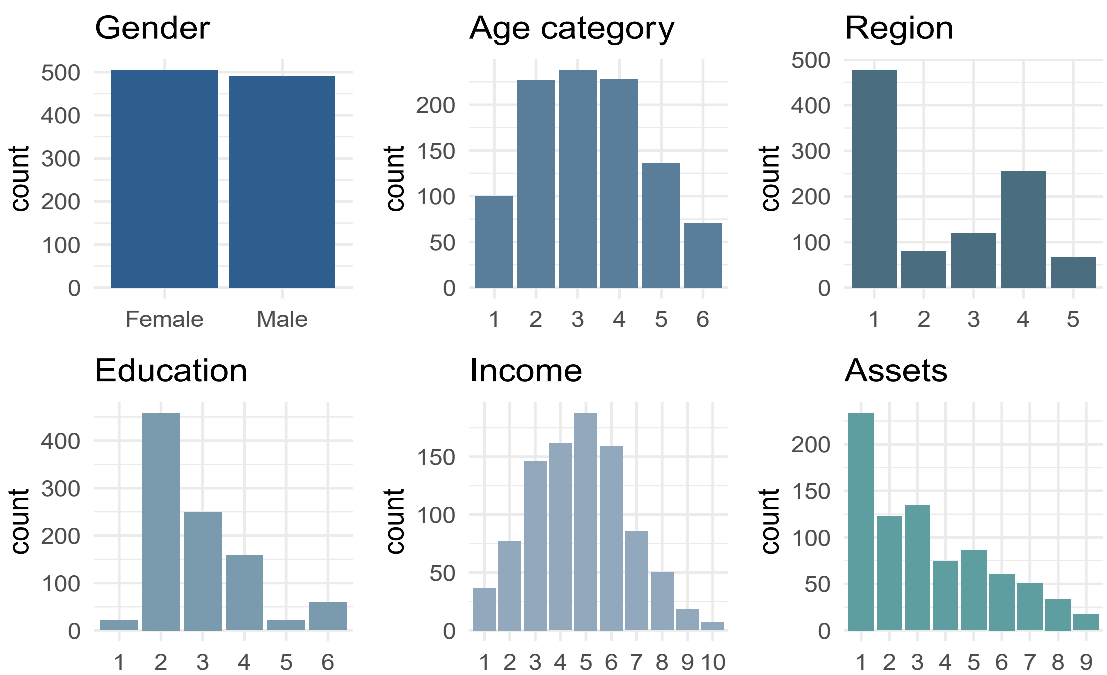

Figure 1. Socio-demographic profile of survey respondents (N = 1,000)

1.2. Financial goals and knowledge

When asked about their financial goals, or what they want to achieve with their investments (Figure 2), respondents foregrounded security and income: more than half of the respondents (56%) aim to maintain a precautionary buffer, and just over half seek additional income streams. A similar share focuses on long-term wealth accumulation, while retirement provision and funding personal projects follow closely at roughly 45%. More discretionary aspirations, such as saving up for children or relatives (25%), register at lower but still material levels. Explicitly impact-oriented investing remains niche (9%), and only a handful cite other goals outright, underscoring that financial resilience and growth still dominate the motivation hierarchy among Estonian retail investors.

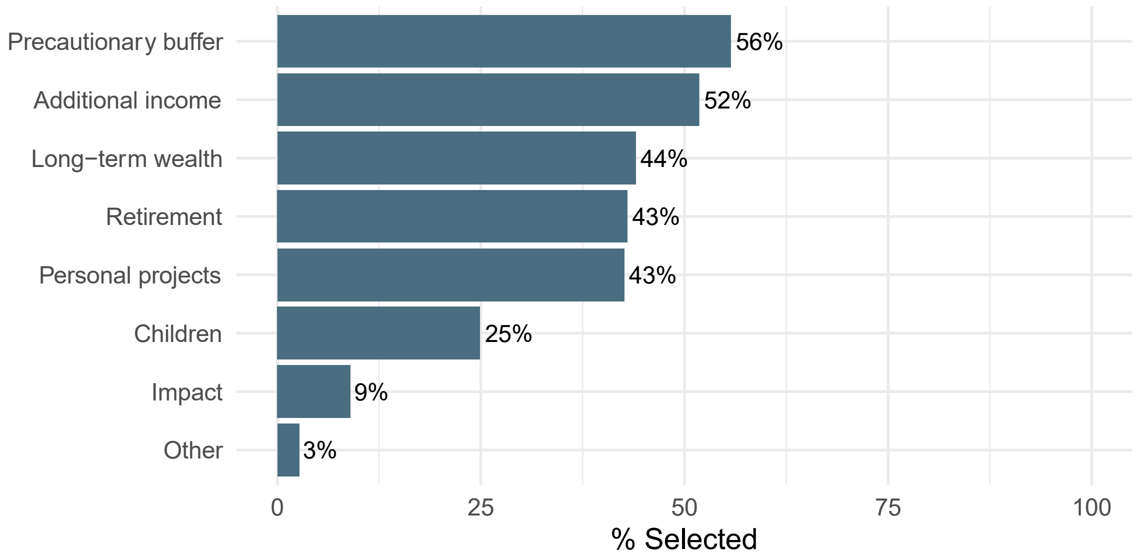

Figure 2. Financial goals of Estonian retail investors (N = 1000)

Among the wealthiest 10% of Estonian retail investors, the most meaningful differences in financial goals compared to the general population are a stronger focus on saving for retirement and a lower emphasis on funding personal projects. 54% of the top 10% prioritise retirement savings, significantly more than the broader group, suggesting a slightly heightened awareness of long-term financial security. Conversely, fewer wealthy investors (37%) cite personal projects as a goal, indicating that immediate or individual pursuits may be less of a priority when greater financial stability is already achieved.

Most surveyed investors demonstrated a solid grasp of two cornerstone personal finance concepts – compound interest and purchasing-power erosion through inflation (Figure 3). The results were also along the same lines for the wealthiest 10%. These figures point to a comparatively high baseline level of numerical financial literacy among Estonian retail investors.

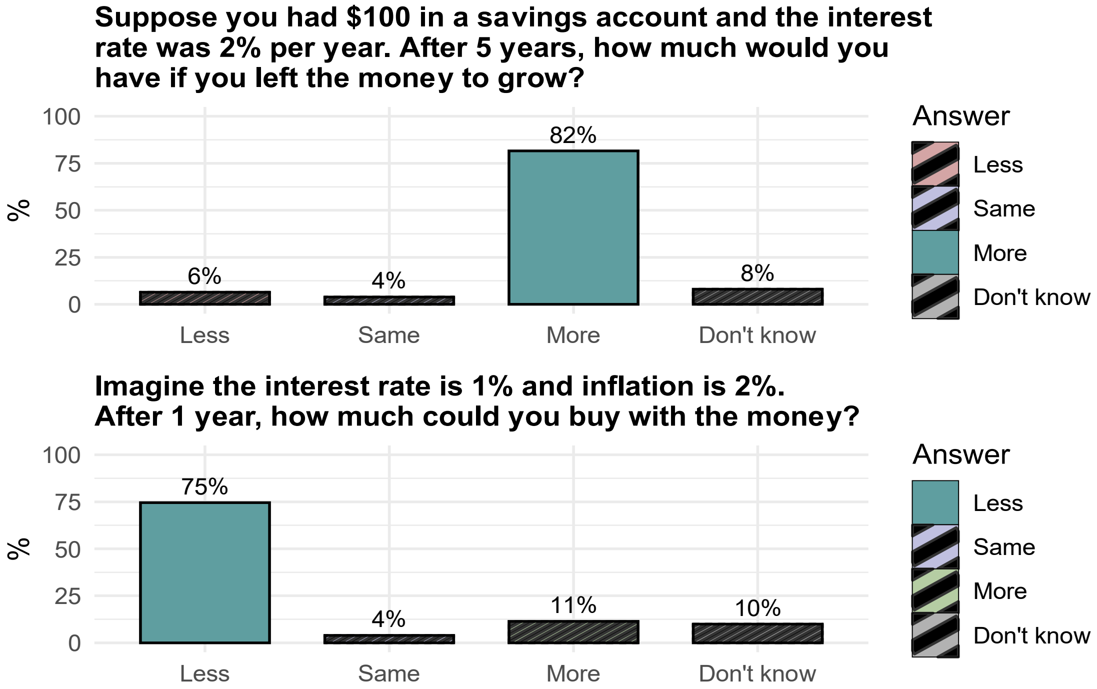

Figure 3. Responses to two basic financial literacy questions on interest accumulation and inflation (N = 1000)

1.3. Risk attitudes, personality, and sustainability views

Estonian retail investors combine reasonable financial knowledge with a moderate willingness to take risks (Figure 4). This profile could support the gradual uptake of sustainable products. Most fall into the middle-to-upper risk bands, so that communications might stress risk-adjusted returns and present sustainability as an additional layer of resilience rather than a purely ethical choice. Addressing their data-driven outlook, while offering lower- and higher-risk options, should cover the range of investor preferences. The wealthiest investors were of a similar profile, but even more risk-prone: 54% rated themselves in the category 5 or higher.

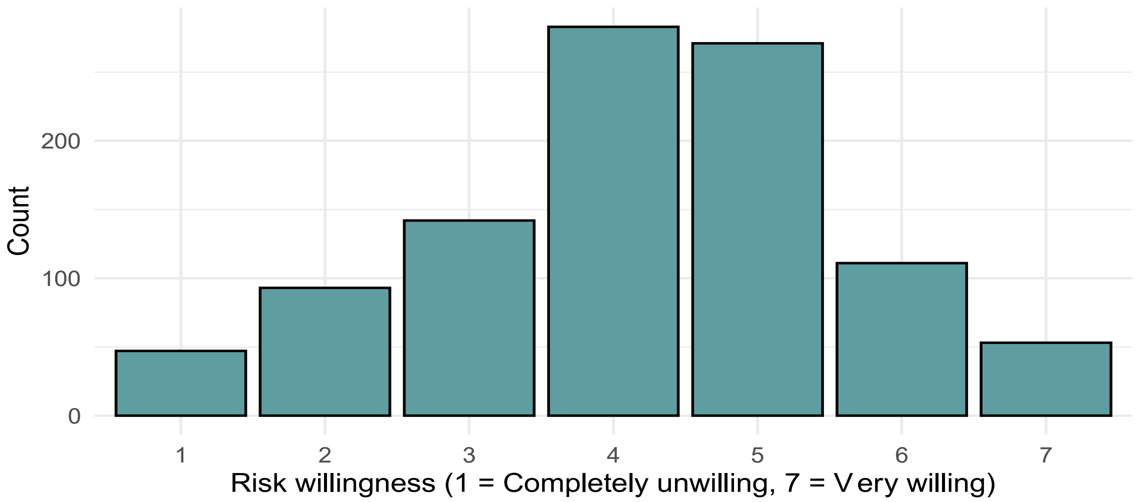

Figure 4. Risk willingness of Estonian retail investors (N = 1000)

Most investors paint a down-to-earth picture of themselves (Figure 5). A 5-point Likert scale shows agreement with statements about their personality, where 1 shows strong disagreement and 5 shows strong agreement. They primarily see themselves as imaginative and curious, seven in ten agree they have an active imagination, and only a quarter say they lack artistic interests. About half call themselves outgoing, yet many admit they can be reserved, hinting that sociability depends on the situation. Two-thirds describe themselves as trusting. They generally think they work thoroughly, though many also confess to laziness. Feelings about emotional composure are mixed: some feel calm under pressure, while others say they get nervous easily. Interestingly, there were no discernible differences for the high-wealth segment.

This blend of openness, sociability and occasional self-doubt matches their middle-of-the-road risk appetite. They are curious enough to explore new ideas, such as sustainable investments, but still want reassurance. Straightforward, transparent information about the rewards and the possible downsides will help them feel confident about putting their money into greener products.

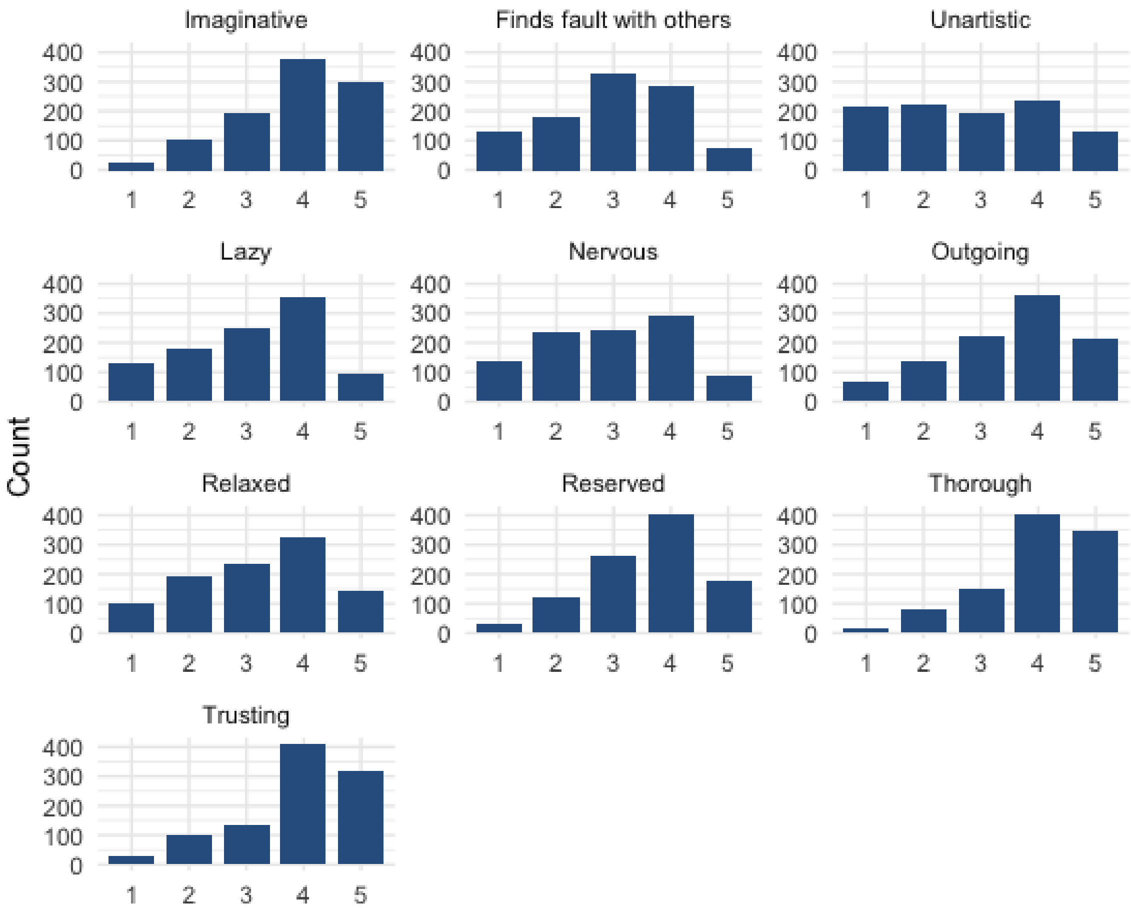

Figure 5. Personality features of Estonian retail investors (N = 1000)

Most people in the survey come across as deeply committed to the planet (Figure 6). Nine out of ten think everyone should learn how to live more sustainably, and a solid majority believe climate change needs urgent attention. They also expect businesses to pull their weight: most want companies to slash unnecessary packaging and support stricter environmental rules. The only statement worded in the opposite direction, “Overusing resources doesn’t harm future well-being”, draws the most push-back; while the largest group actively disagrees, the results are split relatively evenly.

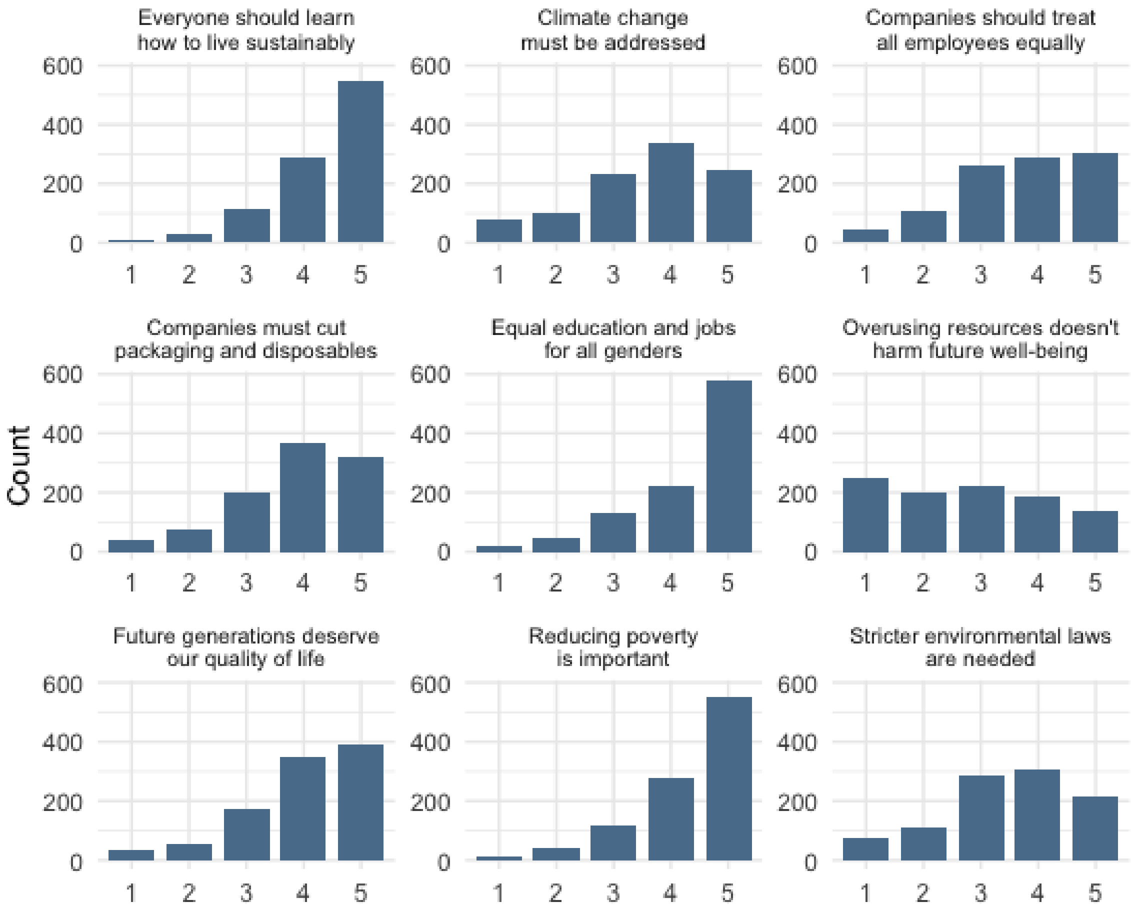

Figure 6. Attitudes toward environmental sustainability and social justice among Estonian retail investors (N = 1000)

Environmental concerns sit alongside a strong sense of social justice. Roughly three-quarters believe companies must treat all employees equally and agree that education and jobs should be accessible to every gender. An even larger share – well over half – say reducing poverty is essential and that future generations deserve the same standard of living we enjoy today. In short, respondents value both a healthy planet and a fair society, suggesting that investment products focused on sustainability and equality might resonate with this audience. The distribution of answers across categories was also similar for the high-wealth population, with the most notable differences found in responses to “future generations deserve our quality of life”: the share of those who "agree a little” was significantly higher than those who "agree strongly” (44% vs 29%). EU-wide retail sustainability attitudes show a similar strong normative endorsement even where actual uptake remains low (e.g., Belgium, France, Germany).[4] In that sense, the Estonian population seems to express similar features.

In addition to the nationally representative survey, the study included 20 individual interviews and two moderated focus group sessions to capture the qualitative dimension of retail investor perspectives. The interview sample was deliberately diverse in age, gender, regional background, and investment experience. Participants ranged from cautious beginners with small portfolios to active investors with considerable financial knowledge and ESG awareness. While some interviewees were still exploring sustainable investing concepts, others had already developed explicit value-based decision-making criteria, such as avoiding arms, tobacco, or fossil fuels. This diversity enabled a rich understanding of investor motivations, attitudes, and barriers beyond what quantitative data alone could reveal.

The two focus groups brought together 11 additional participants in moderated discussions that explored personal interpretations of sustainability, perceived trade-offs between values and returns, and reactions to an educational video explaining impact and value-alignment strategies. The groups included a mix of financial literacy levels and sustainability familiarity, with dialogue revealing contrasting opinions and shared confusion over core environmental, social, and governance (ESG) concepts, especially the governance and social dimensions. These qualitative sources add contextual depth to the survey findings and offer a grounded picture of how Estonian investors think about sustainability in practice.

[4] Sustainable Finance Observatory. 2023. *Moving the Blockers of Retail Sustainable Finance in Belgium*, https://sustainablefinanceobservatory.org/wp-content/uploads/2023/08/Moving-the-blockers-of-retail-sustainable-finance-in-Belgium.pdf

2. UNDERSTANDING OF SUSTAINABLE INVESTING

2.1. Awareness, ownership, and intent in sustainable investing

Figure 7 tracks three successive milestones in the retail investors' journey toward sustainable investing. Just over half of Estonian respondents (54%) have heard of sustainable funds, bonds, or share classes, signalling that basic brand recognition now extends to one in two investors. Actual ownership, however, is far lower: only 22% of the total sample currently holds a product they consciously identify as sustainable (this share is expressed against the complete 1,000-person base, even though the ownership question was posed only to those already aware). Looking ahead, nearly half of all respondents (49%) state they plan to commit additional money to sustainable investments within three years.

According to the Sustainable Finance Observatory (2023), Estonian retail investors hold sustainable financial products at a rate just below the European benchmark of 30 percent. In fact, among all countries surveyed, Estonia ranks lowest, its ownership rate is only marginally above that of Spain, which stands at 25 percent.[5] The data makes it clear that Estonian investors are adopting more slowly than most of their counterparts.

The survey in Estonia shows that awareness of sustainable products is notably higher among wealthier individuals, with 65% having heard of sustainable finance products, compared to 54% in the general population. Ownership also diverges: while just 22% of the general sample report holding a sustainable investment, the figure rises to 36% among high-wealth individuals when calculated against the full sample size. Forward-looking intent is somewhat stronger among affluent investors as well, with 57% planning to invest more in sustainable finance within three years, slightly above the 49% recorded in the general population. These results suggest that higher-wealth individuals are more exposed to, and somewhat more engaged with, sustainable investing opportunities.

These findings point to a moderate but meaningful level of market readiness. While awareness is far from universal, a substantial share of investors is interested. Nearly half express interest in future participation. The gap between current ownership and planned investment highlights a growth potential, but also suggests that intention alone may not be

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[5] Sustainable Finance Observatory. 2023. *Moving the Blockers of Retail Sustainable Finance in Sweden*, https://sustainablefinanceobservatory.org/wp-content/uploads/2023/08/Moving-the-blockers-of-retail-sustainable-finance-in-Sweden.pdf

enough to drive adoption. Building on this base will likely require targeted efforts to improve product visibility, clarify benefits, and support decision-making through accessible information and guidance. The market shows promise, but unlocking demand will depend on making sustainable investing understandable and actionable for a wider group of retail investors.

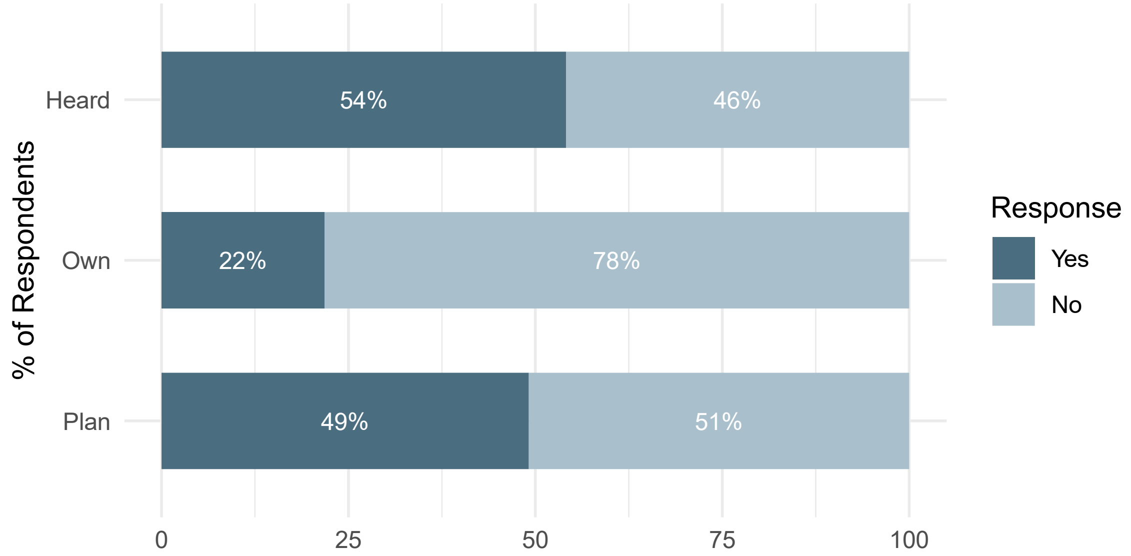

Figure 7. Stages of engagement with sustainable investments among Estonian retail investors (N = 1000)

These survey patterns are echoed in the qualitative findings. While a few interview participants had already selected ESG-labelled funds or screened out controversial sectors like fossil fuels or arms, the majority expressed a general awareness of the term "sustainable investing" without clearly understanding its mechanisms or options. Several admitted confusion between sustainable and ethical investing, or between ESG and impact-focused strategies. Focus group participants frequently asked for more straightforward explanations, visual cues, and practical tools to help them act on their intentions. As one participant said, "I'd like a simple scorecard or list – someone should already have evaluated which companies are sustainable." Another noted that while the idea of sustainability is attractive, the available products often "feel like a black box." These insights underline that future growth depends not only on interest but on addressing persistent knowledge gaps and making sustainable investment choices feel tangible and trustworthy.

2.2. Limited depth and breadth in sustainable investment allocation

Among respondents who already hold sustainable investments, exposure is both selective and shallow (Figure 8). On average, investors allocate modest portions of their total savings to any sustainable product, with no single category receiving more than a fifth. Shares and savings accounts command the most significant average allocations (around 20% each), followed by equity funds/ETFs (11%). Beyond this trio, average allocations drop into the single digits: money market accounts and crowdfunding account for 6–8%, while bonds, bond funds, and other fixed-income instruments barely register. More niche assets, private debt, cooperative shares, and other non-fixed-income securities attract only minimal interest.

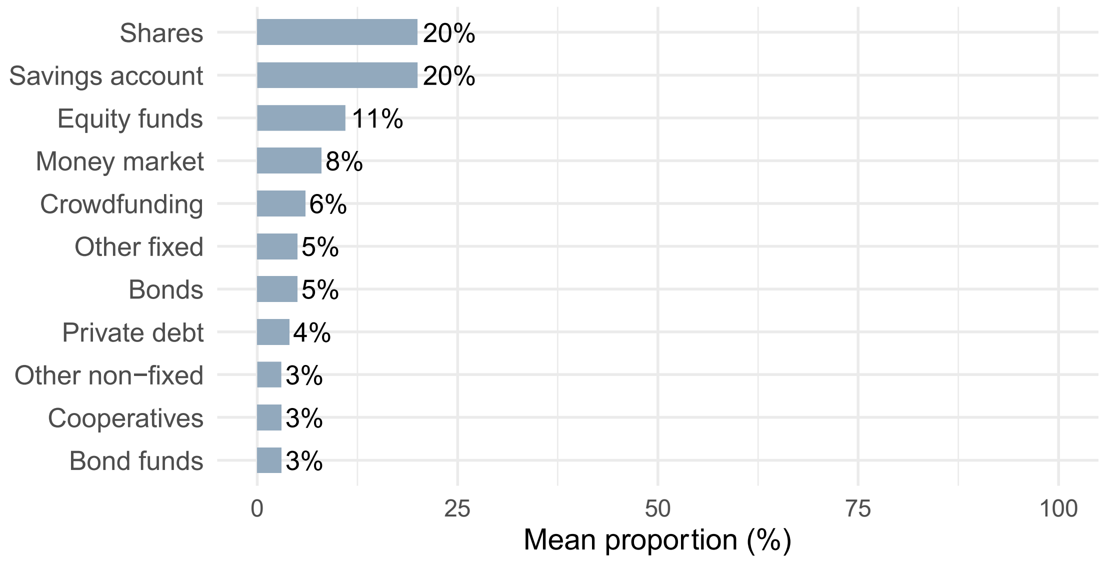

Figure 8. Mean share of savings invested in sustainable financial products (N = 218)

These patterns are also reflected in the reported asset allocation to sustainable investments out of total investments. Among the general population, the median allocation category falls between 20% and 40% of total investments. Although high-wealth individuals more frequently report placing larger portions of their portfolios into sustainable assets, their median allocation still remains within the same 20% to 40% range. This suggests that while wealthier investors are more likely to engage with sustainable finance, they are not necessarily committing a significantly larger share of their portfolios on average.

On a global scale, investors tend to set aside a similar share of their portfolios for green and sustainable instruments. According to Morgan Stanley, the median allocation to sustainable investments typically falls between 21% and 50%, with comparable results in both the US and Europe.[6] In other words, when checked against these broader figures, Estonian investors appear to be right in line with the global average. This also serves as a validation of the results from this survey.

These average allocations reflect a pattern of selective participation rather than broad diversification. Respondents often invest sustainably through just one or two product

[6] Morgan Stanley Institute for Sustainable Investing. 2024. Sustainable Signals: Individual Investors 2024, https://www.morganstanley.com/content/dam/msdotcom/en/assets/pdfs/MSInstituteforSustainableInvesting-SustainableSignals-Individuals-2024.pdf

types, meaning the overall portfolio diversification level within sustainable assets remains low. It is important to note that the results are based on self-reported estimates, and we cannot be certain how respondents interpreted "sustainable" or how precisely they assessed their allocations. Still, the responses suggest that sustainable investing in Estonia is currently equity-centric and bank-led, with limited uptake of fixed-income and alternative assets. Broadening the range of accessible, lower-risk sustainable products could encourage more profound and diversified engagement.

This limited diversification is echoed in the qualitative discussions. Several participants reported relying mainly on familiar instruments like pension funds or generic broad ETFs (such as S&P 500, NASDAQ or similar), with sustainable exposure being incidental rather than intentional. Few had made targeted decisions to invest in sustainability-themed products, and even those who had often expressed uncertainty about product classification. As one participant put it, "I assume my fund is doing something sustainable, but I wouldn't really know how to check." Others highlighted that sustainable options felt "hard to find" or "not clearly labelled", particularly when compared to conventional investments. For those with passive strategies or limited time, sustainability was viewed as a "nice bonus", not a core driver. These narratives help explain the survey's shallow allocation pattern and reinforce the need for more transparent labelling, product innovation, and investor-facing tools to support diversification within sustainable asset classes.

2.3. Gaps in ESG knowledge and regulatory awareness

Understanding of the ESG label remains limited and skewed toward the "E" (Figure 9). When asked what the acronym stands for, the most common answer – selected by 36% of respondents – was "I don't know." Only around one in six respondents correctly identified the full definition: "Environmental, Social and Governance". The remainder chose partial or simplified variants that emphasised the environmental dimension while omitting social or governance elements, such as "Environmental and Sustainable Goals" or "Environmental and Social Goals". While high-wealth individuals were correct in their definition of ESG more often, the proportion was still only 30%.

This pattern is consistent with findings in other EU markets and highlights a persistent educational gap, but also likely overall (lack of) interest and attitudes towards the topic. To illustrate that, a study conducted by the Global Financial Literacy Excellence Center (2023) also labelled one respondent in three as ESG literate in eight countries they surveyed, while the overall interest in sustainable investing was moderately high, indicating similar results to this study.[7] While sustainability is often intuitively associated with environmental protection, fewer investors understand that labour rights, corporate ethics, board oversight, and corruption risks are equally central to ESG frameworks. Bridging this gap is important: governance indicators are often crucial to how ESG-labelled products justify performance differences, manage downside risk, or demonstrate impact. Without fully understanding the "G," investors may undervalue or misinterpret ESG-based portfolio strategies and disclosures.

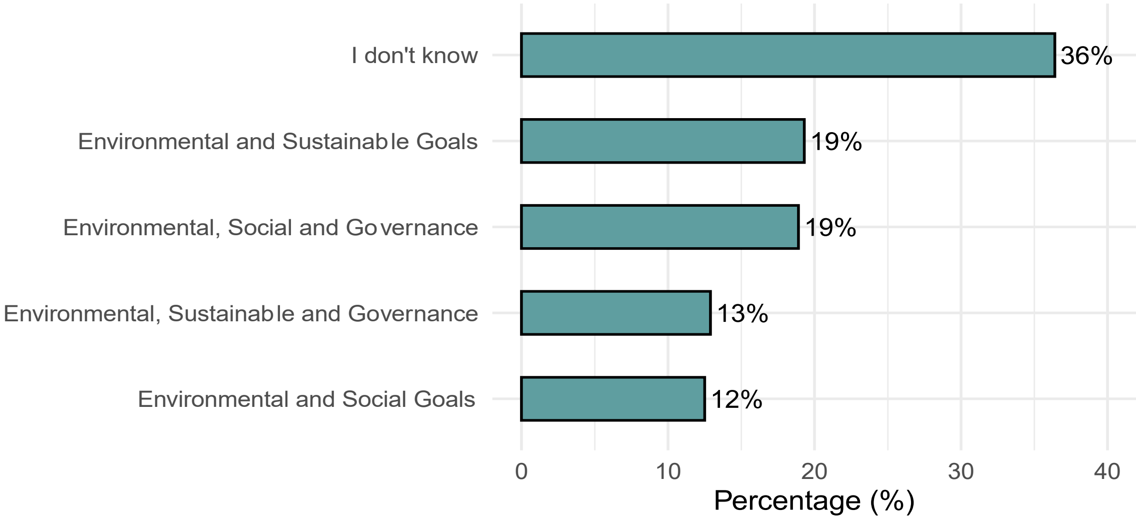

Figure 9. Understanding of the ESG acronym among retail investors (N = 1000)

Interview responses suggest a varied but improving familiarity with the ESG acronym. While some participants, especially those with higher financial literacy, could define ESG correctly or nearly so, others associated it primarily with environmental themes or used broader terms like "sustainable" or "ethical investing". Governance and social aspects were less frequently mentioned unprompted, though often recognised once discussed.

A few participants noted that while they understood the acronym, they found its practical application unclear, particularly in distinguishing between products or evaluating company performance. As one focus group member said, "I know ESG includes social and governance issues, but it's not always obvious how those are measured or reported." These findings highlight that while basic awareness of ESG grows, consistent and practical understanding remains uneven, especially when moving from abstract definitions to real-world investment decisions.

In addition to the previous findings, the regulatory literacy around sustainable investing is uneven and sometimes misplaced (Figure 10). When asked whether any product marketed

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[7] Fernandez et al. (2023). ESG Knowledge and Interest: A Study Among Householders in 8 Countries. *Global Financial Literacy Excellence Center Working Paper Series*, 1-48. https://gflec.org/wp-content/uploads/2023/07/GFLEC_WP2023_1.pdf

as “sustainable” in the EU must meet uniform state-defined criteria, a clear majority (61%) incorrectly answered “yes,” while only 9% correctly said “no”. The share of correct answers was precisely the same among high-wealth respondents, but they were even more confident in the uniform criteria aspect. This suggests that many investors overestimate the extent of current regulatory enforcement, despite the ongoing rollout of frameworks like the EU Taxonomy and Sustainable Finance Disclosure Regulation (SFDR), which are not yet universally applied.

Awareness of sustainability labels or certifications was also limited: only 21% of respondents said they could name or recall one. In comparison, more than half (53%) reported no awareness, and a quarter (26%) were unsure. In the high-wealth survey, the proportion of respondents able to recall certifications was 31%. This indicates a missed opportunity for third-party verification schemes to build trust and guide investment choices.

The respondents were then presented with a borderline ethical case: a company with strong environmental performance but poor social and labour practices. While a majority (54%) correctly answered that such a company’s shares should not be called “sustainable,” 17% still accepted the label, and 29% were unsure, revealing confusion about the multi-dimensional nature of sustainability. The results for the high-wealth population were in the same range.

These responses expose a mismatch between perceived regulation and actual product oversight. Investors tend to assume that all “sustainable” financial products are officially vetted, while remaining largely unaware of independent labels and uncertain about applying ESG principles holistically. Bridging this knowledge gap will require more transparent public communication about the current regulatory landscape, the role of voluntary standards and certifications, and the importance of evaluating environmental, social, and governance factors in combination. Moreover, interestingly, there are studies showing that if investors are offered a variety of green and non-green investment options, they consistently select the products that are labelled green.[8] This “green label effect” highlights the potential for misinformed decision-making and underscores the importance

[8] Saravade et al. (2025). To Label or Not? A Choice Experiment Testing Whether Labelled Green Bonds Matter to Retail Investors. *Humanities and Social Sciences Communications,* 12, 82, https://doi.org/10.1057/s41599-025-04395-w

of clearer, more accountable labelling and regulatory practices to support informed investor choices.

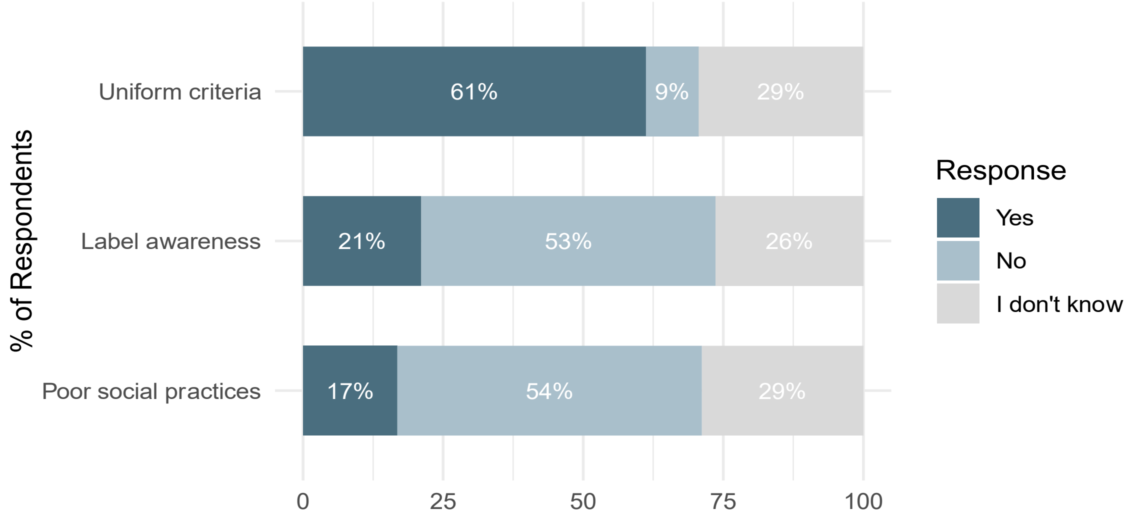

Figure 10. Awareness of ESG rules, labels, and definitions (N = 1000)

Interviews revealed similar uncertainty around regulation. While some participants were aware of EU initiatives like the taxonomy or SFDR, others assumed that sustainability-labelled products were already subject to strict, uniform criteria. A few explicitly expressed surprise upon learning that “sustainable” funds may not follow any mandatory standards.

Several participants also mentioned relying on visual cues like green logos or fund names, rather than verified certifications. When asked how they assess whether a product is truly sustainable, many said they either "don’t really check" or depend on the provider’s reputation. This points to a gap between growing interest and the tools investors currently use to evaluate product credibility.

Inconsistent understanding of the ESG criteria is also reflected in other questions. When asked how many of the three ESG pillars a firm must meet to qualify as “sustainable,” just over half of respondents in the general survey, as well as high-wealth individuals (both 55%), gave the normative answer: all three. However, nearly half of the sample still misunderstand or are unsure. In the general survey, 12% believe meeting two pillars is sufficient, 6% are satisfied with only one, and 28% do not know.

These findings echo earlier results showing that many investors mistakenly assume uniform regulatory standards. Together, they highlight a substantial knowledge gap: while many grasp the idea of multi-dimensional sustainability, understanding its full scope and application remains limited. Addressing this will require product disclosures that go beyond “E” metrics to include clear assessments of social and governance performance, and advisory conversations that explain why a holistic ESG view matters, for both ethical coherence and long-term risk management.

2.4. Misunderstandings about sustainable investing's impact

Misconceptions about the real-world impact of sustainable investing remain widespread (Figure 11). When asked whether buying a low-carbon fund directly reduces global CO2 emissions, responses were almost evenly split: 37% (38% for high-wealth respondents) believe it does, 34% (42% for high-wealth respondents) say it does not, and 29% (20% for high-wealth respondents) are unsure. This reflects a common confusion between portfolio-level carbon metrics and real-world emissions outcomes.

Uncertainty grows around engagement and influence. Half of the respondents (50%) do not know whether providers of sustainable funds actively engage with investee companies. Only 24% believe they do, while 26% think they don't, suggesting a lack of awareness around stewardship practices. High-wealth respondents did not fare any better: only 29% correctly chose "no". The conceptual distinction between sustainable and impact investing is also poorly understood: while 38% recognise a difference, a larger share (42%) say they don't know, and 20% see no distinction.

These results indicate that, beyond basic labels and ESG scores, many retail investors lack a clear understanding of how sustainable finance aims to generate real-world outcomes. Additionally, the literature on the motivations behind investors' willingness to pay for sustainable investments reveals that emotional satisfaction, or the "warm glow" effect, often drives investment decisions more than a calculated assessment of actual environmental or social impact.[9] This may explain why people don't bother looking deeper into sustainability issues.

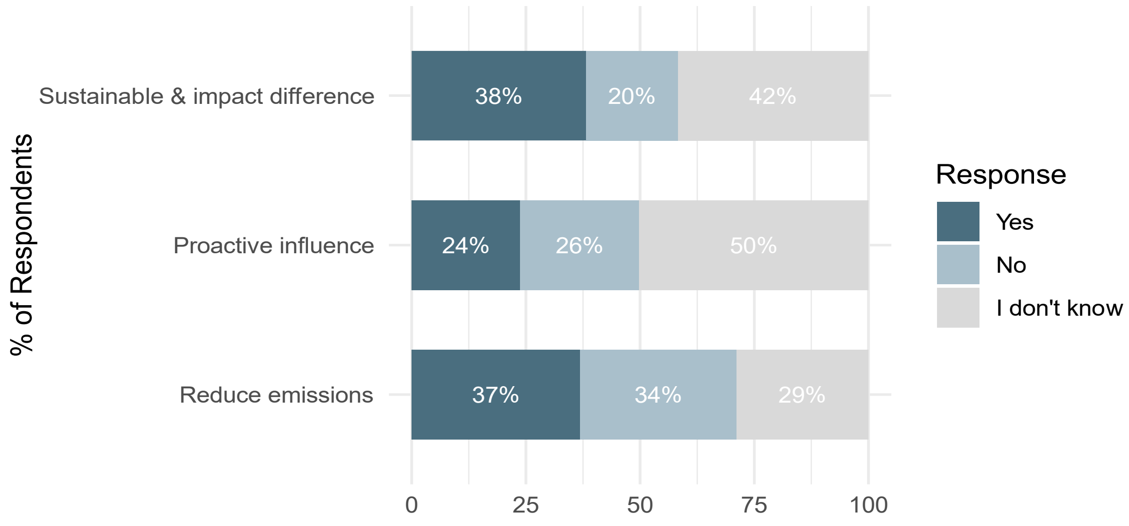

Figure 11. Awareness of engagement, impact, and emissions mechanisms in sustainable finance (N = 1000)

[9] Brotherton et al. 2023. Do Investors Care about Impact? *The Review of Financial Studies* 36, 5, 1737–1778, https://doi.org/10.1093/rfs/hhac066

On the same topic, several interviewees admitted uncertainty about whether sustainable investments genuinely lead to environmental or social improvements. While the concept of "doing good" with money was generally well-received, the mechanisms behind it remained vague for many. Some participants assumed that buying a green fund directly reduces emissions, while others viewed such claims sceptically, describing them as "marketing talk" or "feel-good strategies".

The distinction between impact and value alignment was also unclear to many. A few participants initially used the terms interchangeably until prompted to reflect more deeply. Even then, some continued to conflate ethical intent with real-world outcomes. One focus group participant noted that "it's hard to tell if anything I do with my money really changes the world", underscoring a gap in understanding and perceived agency. These insights suggest that building trust in sustainable finance requires education on ESG frameworks and compelling, transparent stories about how investments translate into change.

Consequently, the knowledge of the *nuts-and-bolts* of sustainable investing remains fragmentary. Fewer than one-in-ten respondents (8%) correctly recognised that none of the familiar consumer labels shown, ISO 9001, the EU organic leaf, or the FSC forestry mark, certifies a financial product against ESG criteria; more than half (52%) *didn't know*, and the rest mis-attributed one of the three labels to finance. The high-wealth respondents were slightly more confident but fared even worse: 42% admitted that they *didn't know,* but 7% chose the correct answer.

Basic terminology fares only slightly better:

- Greenwashing was correctly defined by 39% (45% of high wealth) as misleading marketing of sustainability claims, but an equal share misunderstood or were unsure.
- Exclusion strategies (screening out controversial sectors) are understood by 38% of investors (50% of high-wealth respondents); best-in-class approaches (picking the ESG leaders within each sector) by just 31% both in general and high-wealth surveys.
- Asked how a low-carbon equity fund might reduce emissions, only 29% (32% for high-wealth respondents) chose the correct, indirect signal effect, while the rest either assumed a direct causal effect or could not say.

In the interviews and focus groups, terms like "greenwashing" and "exclusion strategies" surfaced occasionally, but often lacked precise definitions. Some participants used the words correctly, while others conflated them with broader notions of ethical or "green" investing. A few respondents explicitly asked for more straightforward explanations or examples, noting that many ESG strategies "sound similar but are quite different when you look into them". This reflects the same fragmentation observed in the survey, where jargon is familiar, but its operational meaning remains elusive for much of the audience.

These findings point to a persistent jargon and mechanics gap: while slogans like "greenwashing" have entered public discourse, fewer than four in ten investors can explain them precisely. Many still confuse portfolio composition with real-world climate impact, indicating a disconnect between ESG branding and actual understanding. The results are only slightly better for the high-wealth population. Moreover, there are recent studies confrírming an issue. For example, Kleffel and Muck (2023) found that many retail investors are influenced by green marketing labels, even when explicitly informed that such labels may not indicate genuine environmental performance. Intriguingly, some investors, especially those driven by a desire for moral self-consistency, preferred green-labelled funds without verifying their actual sustainability impact, suggesting that the symbolic value of "doing good" can outweigh factual understanding.[10] This is important because it highlights how emotional reassurance can override due diligence, potentially allowing greenwashing to thrive even in well-intentioned investment environments.

2.5. Perceptions, learning preferences, and the purpose of sustainable investing

Investor perceptions of risk, return, and fees remain mixed and uncertain. When asked to compare sustainable and conventional investments:

- Risk: 29% believe sustainable options are less risky, 24% believe they're riskier, and 30% see no difference, with the rest unsure. There were only a few differences for high-wealth respondents.
- Return: Expectations lean slightly negative. 37% anticipate lower returns, 27% expect parity, and 14% foresee higher returns, while 22% have no view. The high-wealth respondents leaned slightly more often towards lower returns.
- Fees: Views skew toward neutrality (34%), but 20% expect higher fees, and a similar share are unsure. The high-wealth respondents leaned towards neutrality even slightly more often.

In sum, the prevailing narrative of "doing well by doing good" has yet to convince fully: many investors still suspect a trade-off, though a sizeable number either disagree or remain undecided. This lack of consensus is also common in secondary literature. For example, a recent literature review by Aulia et al. (2024) highlights that some investors see sustainable investments as less risky, often due to the belief that ESG-compliant companies are better managed and less exposed to scandals or regulatory risks. Conversely, others view ESG constraints as limiting diversification, thus increasing

[10] Kleffel & Muck. 2023. Aggregate Confusion or Inner Conflict? An Experimental Analysis of Investors' Reaction to Greenwashing. *Finance Research Letters,* 53, https://doi.org/10.1016/j.frl.2022.103421

perceived risk, particularly in portfolios with exclusionary screens.[11] The literature shows no consensus, similar to our findings.

We then asked the respondents to indicate their overall interest to learn about sustainable investing and sustainable financial products. Interest in learning more about sustainable investing is high, but highly dependent on the format. Nearly two-thirds (64%) place themselves at or above the midpoint of the five-point intention scale, including 29% who express a strong or very strong desire to deepen their knowledge. Only one-third report low curiosity. The high-wealth respondents were interested even slightly more often (74% place themselves at or above the midpoint).

When asked where they would prefer to learn more, respondents strongly favoured digital, self-directed channels (Figure 12):

- Social media topped the list by a wide margin, followed by online forums and structured e-learning.
- A second tier includes news outlets, bank websites, and financial portals, suggesting trust in established information providers.
- Family, corporate websites, and blogs sit mid-table, while print media, podcasts, and brochures attract niche interest.

Face-to-face sources like school instruction, bank advisors, and counselling centres rank near the bottom.

Notably, a non-trivial minority say they "don't know" where to turn, or would not use any channel at all. This suggests that passive interest isn't enough; accessibility and format matter.

To turn curiosity into action, outreach efforts should prioritise engaging, shareable digital content, infographics, short videos, and interactive tools while providing deeper reference material on trusted portals and institutional websites for those ready to explore further.

[11] Aulia et al. 2024. Consumers' Sustainable Investing: A Systematic Literature Review and Research Agenda. *Cleaner and Responsible Consumption,* 14. https://doi.org/10.1016/j.clrc.2024.100215

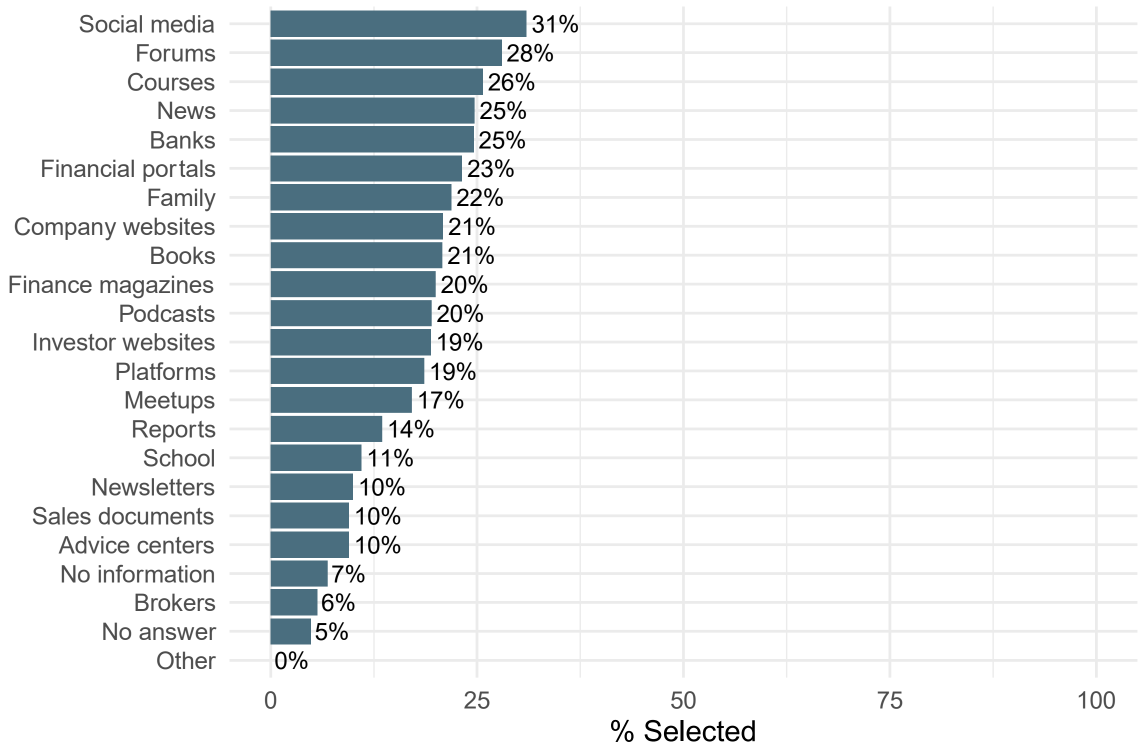

Figure 12. Preferred information channels for learning about sustainable investing (N = 1000)

Interview participants also strongly preferred self-guided, digital learning, echoing the survey's emphasis on online channels. However, several noted that even online materials must be adapted to different levels of financial literacy. Some requested beginner-friendly resources with visuals or practical use cases, while others called for comparison tools that "don't require a degree in economics". Notably, several younger participants stressed the importance of learning these topics earlier – ideally through school or structured youth programs – to build foundational understanding before financial decisions become urgent.

The respondents were also asked about their beliefs. Beliefs about the broader role of investing reflect a cautiously optimistic outlook among Estonian retail investors, but strong consensus remains elusive (Figure 13). Across all three attitudinal statements, 39–47% of respondents agree or strongly agree that their investments can contribute to more than just financial outcomes:

- 44% (47% wealthy) agree that investments are a way to express personal values,
- 39% (52% wealthy) believe their investments make a real-world difference, and
- 47% (52% wealthy) think investments can help change the world.

At the same time, a significant share, ranging from 35% to 42%, selected the neutral option, indicating uncertainty or ambivalence. This suggests that while many investors are open to aligning their finances with social or environmental goals, they remain unsure about the actual impact.

Active disagreement is relatively low: 14–25% disagree or strongly disagree with these statements, pointing to limited but present scepticism.

These results, together with earlier findings on ESG terminology gaps, misconceptions about regulation, and confusion around impact mechanisms, suggest that many investors are open to sustainable finance but lack the confidence and clarity to commit fully. To build on this cautious optimism, providers and policymakers should focus on:

- Communicating concrete, real-world outcomes of sustainable investing,
- Demonstrating transparent, credible metrics of impact, and
- Providing narratives that clearly link investment choices to societal or environmental improvements.

Such efforts could help convert neutral or hesitant attitudes into active engagement.

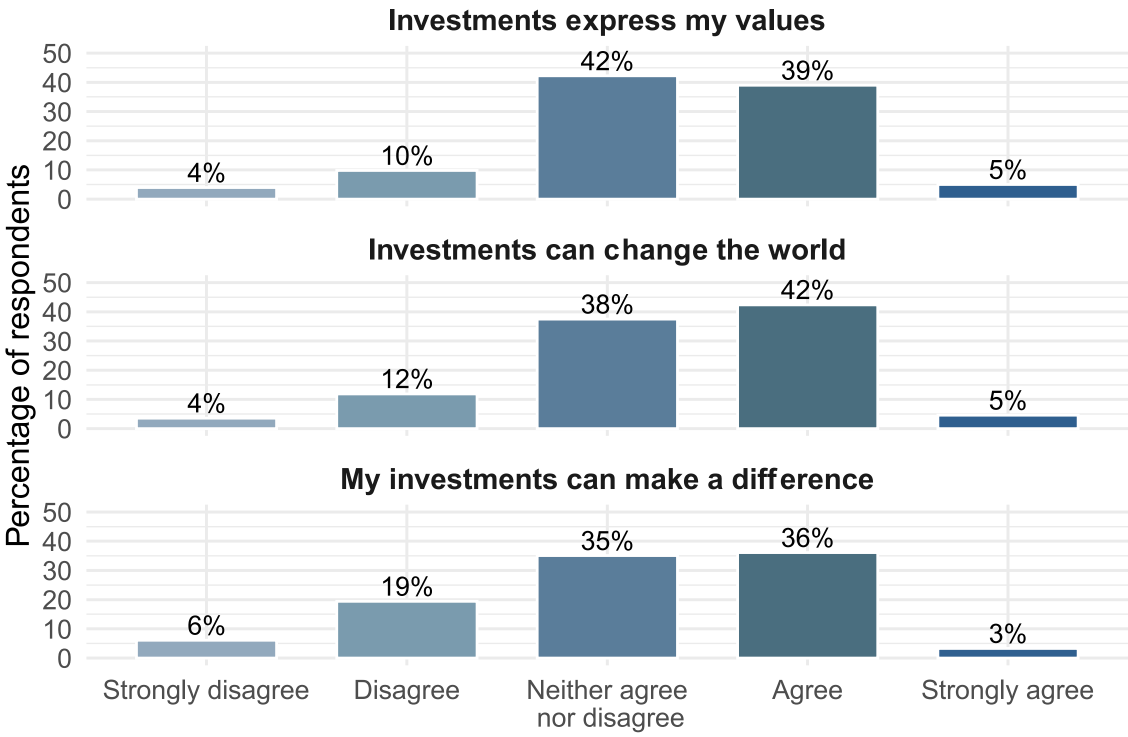

Figure 13. Attitudes toward the non-financial purpose of investing (N = 1000)

In qualitative discussions, this cautious optimism was equally evident. Several participants expressed a desire for their investments to reflect personal ethics or contribute positively to the world. However, they often paired this aspiration with scepticism about whether investment products genuinely deliver such outcomes. One participant noted, “I’d like my money to do good, but I don’t know if funds claiming that really make a difference.” Others framed value alignment more as a matter of avoiding harm than actively creating impact.

At the same time, some investors appeared motivated by the very idea of contribution, even without clear evidence. A few described investing in sustainability-focused funds as a “signal of values,” accepting uncertainty about real-world outcomes as part of the process. These mixed narratives suggest that while strong impact convictions are not universal, there is widespread openness to the moral and social dimensions of investing, if the message and mechanisms are made more credible. These results are also in line with the secondary literature.[12,13]

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[12] Kleffel & Muck. 2023. Aggregate Confusion or Inner Conflict? An Experimental Analysis of Investors’ Reaction to Greenwashing. *Finance Research Letters,* 53, https://doi.org/10.1016/j.frl.2022.103421
[13] Sustainable Finance Observatory. 2023. *Moving the Blockers of Retail Sustainable Finance in Sweden*, https://sustainablefinanceobservatory.org/wp-content/uploads/2023/08/Moving-the-blockers-of-retail-sustainable-finance-in-Sweden.pdf

3. FINANCIAL OBJECTIVES

3.1. Unpacking investor motivations beyond profit

When Estonian retail investors assess their investment priorities, financial returns remain the dominant objective, but values-based and impact-oriented objectives also hold considerable weight (Figure 14).

- Maximising return for the accepted level of risk ranks at the top: 81% of respondents say this goal is either “important” or “very important,” with 32% selecting the highest level of importance.
- Second is value alignment: investing in companies that reflect personal ethics, with 69% rating this goal as important or very important. However, fewer (20%) give it the highest possible rating, indicating slightly more nuance or variability in the strength of conviction.
- The goal of contributing to change in the real economy is more modestly endorsed: a majority (55%) still see it as important, but only 10% rate it as “very important,” while 35% remain neutral, suggesting uncertainty about the efficacy or relevance of this objective.[14]

This distribution signals a layered investment hierarchy (the results are exactly the same for the high-wealth respondents):

1. Return expectations form a foundational prerequisite.
2. Ethical alignment is a close second, essential for many.
3. Real-economy impact is desirable but not essential, and contingent on the clarity of mechanisms or personal capacity.

For financial product providers, the message is clear: sustainability features should be framed not as trade-offs, but as enhancements that reinforce core performance expectations while aligning with investor values. Products that credibly deliver on financial and ethical dimensions stand the best chance of gaining trust and gaining traction.

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[14] This places Estonia slightly above the EU average, with roughly half of respondents wanting to have an impact. See: Sustainable Finance Observatory. 2025. *Mind the Gap: Why European Retail Investors Don’t Get What They Want,* *https://sustainablefinanceobservatory.org/wp-content/uploads/2025/06/SFO_Mind-the-Gap-Why-EU-retail-investors-dont-get-what-they-want_2025.pdf*

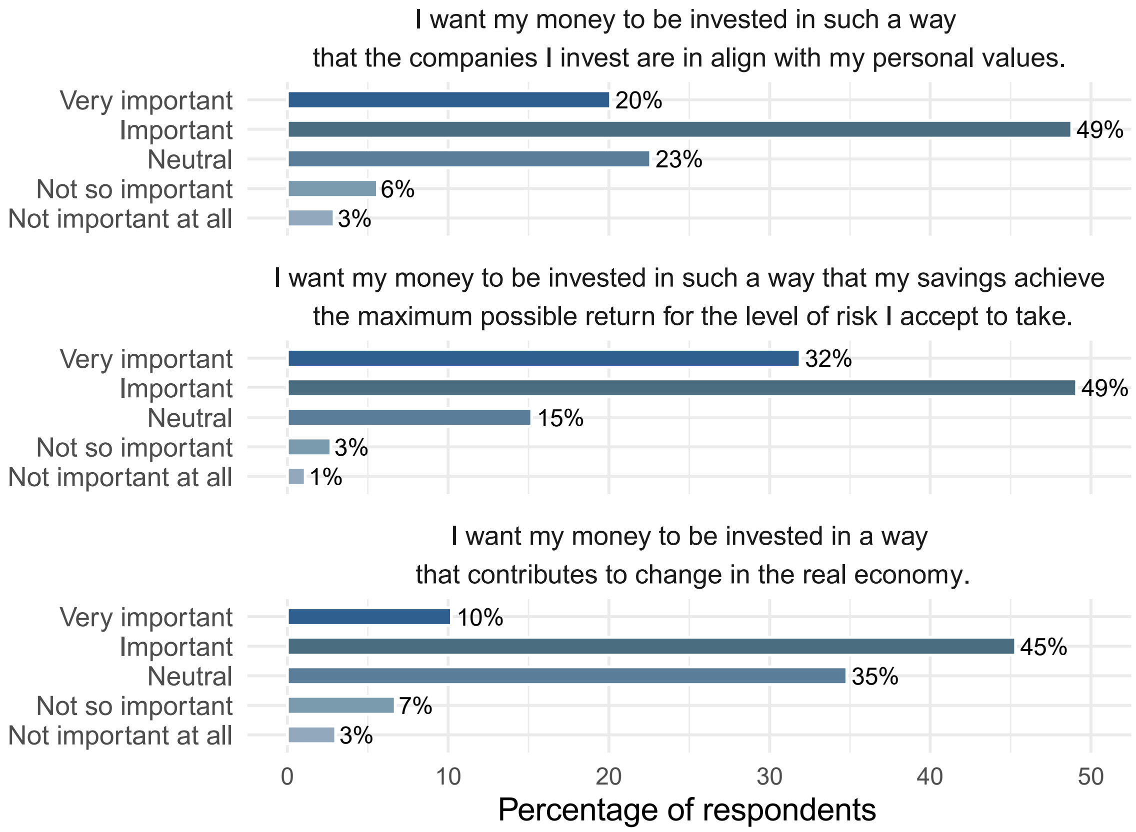

Figure 14. Relative priority of financial, ethical, and impact goals in investment decisions (N = 1000)

Interviews confirmed this investment hierarchy. Most participants described financial return as a basic expectation – a "non-negotiable" feature, especially among those with prior investment experience or higher income. Ethical preferences, when mentioned, were often described as filters rather than primary drivers. For example, some said they would exclude specific industries like arms or tobacco, but would not accept notably lower returns in exchange for positive social impact.

That said, a smaller group, particularly those with strong sustainability values, emphasised ethical consistency over performance, even if it meant forgoing gains. One respondent put it simply: "It's not about beating the market – it's about sleeping well at night." However, even these investors typically wanted assurance that their investments were credible and not merely symbolic. This blend of pragmatism and principle reinforces the need for sustainable products to be both ethically convincing and financially competitive.

Interestingly, the secondary literature comes to the same conclusion: the desire to contribute to positive change in the real economy is also present but often takes a backseat to financial and ethical considerations. A literature review published by Aulia et al. (2024) highlighted that while investors are interested in the social and environmental impact of their investments, there is often uncertainty about the efficacy of these investments in driving real-world change.[15] This uncertainty can lead to a more cautious approach, where impact is seen as a bonus rather than a primary driver.

When asked which non-financial goals private investors might pursue when investing (Figure 15), respondents' unprompted selections reveal both intuitive understanding and lingering conceptual overlap, the most frequently chosen response, by approximately 45% of participants, was "positive impact on the invested companies", suggesting a broad recognition of sustainability-oriented motivations. A similar share of respondents chose "value alignment", indicating that ethical consistency between personal beliefs and investment choices is also widely seen as a non-financial objective.

40% of the respondents also selected "risk reduction," a more ambiguous category that can reflect both traditional financial prudence and broader notions of long-term responsibility. Notably, more than one-third (34%) also identified "maximising returns" as a non-financial goal, indicating that many investors do not strictly separate financial performance from broader investment aims. Only a small minority (around 10%) selected "I don't know", suggesting most participants felt confident expressing a view. The high-wealth respondents showed uncertainty slightly less often, and slightly higher proportions of respondents chose other categories, but overall hierarchy remained.

Taken together, the responses point to a blurred boundary between financial and non-financial objectives in the minds of many investors. While values-based and impact-oriented objectives are widely acknowledged, the persistence of return maximisation within a "non-financial" framing underscores the need for clearer distinctions in both educational materials and advisory conversations. Helping investors more precisely differentiate between financial metrics and broader societal or ethical outcomes could support more informed and intentional decision-making. That said, there are studies showing that ethical investing is becoming a mainstream feature of personal finance, especially among younger, values-driven investors.[16] This means that knowledge levels are also likely to be on the way up. Additionally, the paper argues that aligning investments

[15] Aulia et al. 2024. Consumers' Sustainable Investing: A Systematic Literature Review and Research Agenda. *Cleaner and Responsible Consumption,* 14. https://doi.org/10.1016/j.clrc.2024.100215
[16] Echean, V. 2024. *Aligning Values with Returns: Ethical Investing in Personal Finance*." SSRN, https://ssrn.com/abstract=4845450.

with personal ethics not only fosters societal change but also enhances investor engagement and psychological well-being.

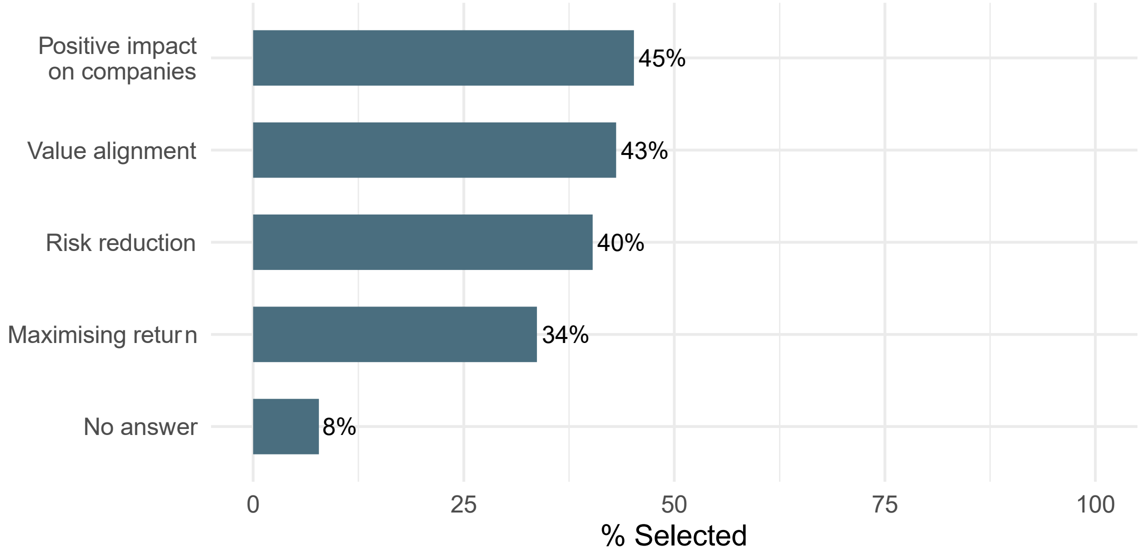

Figure 15. Perceived non-financial investment goals among Estonian retail investors (N = 1000)

The conceptual overlap of financial and non-financial goals was frequently visible in the qualitative material. Several participants described goals like “security”, “stability”, or “future-proofing” as ethical or sustainable, even when tied to conventional financial metrics. Others equated “doing good” with reducing risk, suggesting that sustainable investing was attractive less for moral reasons than for long-term portfolio resilience. A few respondents explicitly stated they didn’t separate values and returns, with one remarking, “If a company is doing the right thing, it’s probably a better investment anyway.” These findings point to the challenge of cleanly disentangling financial and ethical motivations in practice, and reinforce the need for more precise guidance on how different investment strategies serve various objectives.

Investor perceptions of *value alignment* and *impact investing* remain conceptually blurred. When asked whether value-aligned investors seek to create real-world change, 68% answered yes, indicating a conflation of ethical consistency with tangible outcomes. The proportion of high-wealth respondents who chose “yes” was even higher (74%). While this view may reflect aspirational thinking, it stretches the formal distinction. V*alue alignment* is typically about personal congruence, not direct societal effects.

This confusion is echoed in responses about the goals of *impact-only* investors. While 29% correctly identified the intention to generate real-world change by applying sustainability criteria, substantial shares linked impact investing to traditional financial motives: 24% cited higher returns, 12% pointed to risk reduction, and 16% saw it as value-based investing, rather than outcome-oriented. Nearly one in five (19%) admitted they did not know, further underscoring the semantic overlap between investment strategies. The high-wealth respondents, once again, displayed a higher level of confidence, but the same proportion of correct answers.

When explicitly asked whether the non-financial goals of *value alignment* and *impact investing* differ, only 46% affirmed a distinction, while 38% were unsure and 16% said no, reinforcing the conceptual murkiness. The high-wealth respondents recognised the difference slightly more often (56%). The confusion was also confirmed in earlier reports by in other countries.[17,18]

This conflation is not merely anecdotal. A recent multidisciplinary review by Marti et al. (2023) underscores that much of the confusion arises from a lack of consistent definitions and mechanisms for what constitutes "impact" in sustainable investing. The authors distinguish between three strategies – portfolio screening, shareholder engagement, and field building – each producing different types of impact. However, they find that investors and even professionals often collapse these strategies into a single, ambiguous concept. Without a clear taxonomy, investors conflate personal ethical alignment (e.g., ESG screens) with direct real-world change, despite these being fundamentally distinct in mechanism and effect.[19]

These findings point to a persistent gap in terminology comprehension. Retail investors generally recognise that investing can serve purposes beyond profit, but many still blur the lines between ethical expression, financial optimisation, and real-world influence. Bridging this gap calls for clearer, narrative-driven communication, ideally grounded in relatable examples and transparent metrics, that helps investors match their priorities with the appropriate strategies. Drawing from secondary literature, Marti et al. highlight the necessity for a shared conceptual foundation and transparent, outcome-oriented metrics.[20] In the absence of these, investors may base decisions on aspirational beliefs rather than a clear understanding of how specific investment strategies influence environmental or social outcomes. This affirms the need for narrative-driven education, not only to bridge semantic gaps but to enable meaningful strategy selection.

3.2. Investor reactions to different sustainable fund approaches

Finally, to explore how investors perceive the real-world impact of sustainable fund strategies, respondents were shown anonymised descriptions of three investment

[17] Sustainable Finance Observatory. 2023. *Moving the Blockers of Retail Sustainable Finance in Sweden*, https://sustainablefinanceobservatory.org/wp-content/uploads/2023/08/Moving-the-blockers-of-retail-sustainable-finance-in-Sweden.pdf
[18] Sustainable Finance Observatory. 2023. *Moving the Blockers of Retail Sustainable Finance in Poland*, https://sustainablefinanceobservatory.org/wp-content/uploads/2023/08/Moving-the-blockers-of-retail-sustainable-finance-in-Poland.pdf
[19] Marti et al. 2023. The Impact of Sustainable Investing: A Multidisciplinary Review. *Journal of Management Studies* 61, 5: 2181–2223. https://doi.org/10.1111/joms.12957
[20] *Ibid.*

products, each reflecting a different sustainability approach, and asked to rate their perceived impact. The descriptions are displayed in Table 1.

Table 1. Fund descriptions

Fund Focus	Fund Description
Climate change mitigation	"The Fund's investment objective is to contribute towards climate change mitigation and adaptation as considered by the Paris Climate Agreement while seeking capital appreciation. The Fund pursues decarbonization primarily through investments in solutions to reduce greenhouse gas emissions, and secondarily through investments in companies aligning with the 1.5-degree scenario."
Harm avoidance & norms compliance	"The Fund Manager applies firm-wide exclusions (e.g., companies generating >20% revenue from thermal coal), and excludes companies related to tobacco and those on 'global norms' breach lists based on external ratings, including principles like the UN Global Compact and OECD Guidelines."
Positive environmental/social contributions	"Sustainable investments in the Fund demonstrate a net positive effect on environmental or social objectives, including benefits like clean water access or fair pay, and reductions in emissions or food waste, as scored by an internal tool."

Across all three funds, the most common rating was "moderate impact" (32%). Roughly a quarter of respondents viewed the funds as having high or very high impact (ratings 5–6), while a similar proportion rated them as having low impact (ratings 1–3).

The fund aligned with the Paris Agreement received the highest share of "high impact" ratings (20%) and the fewest "don't know" responses (15%), suggesting that association with widely recognised goals may improve perceived credibility. In contrast, the exclusion-based fund drew more "no impact" ratings and the most uncertainty (20%). Using a proprietary scoring system, the fund fell between the other two, with similar impact ratings to the norms-based fund but fewer "no impact" responses. The results are summarised in Figure 16. Notably, there are no significant differences for the wealthy respondents, other than slightly lower proportions of respondents who admit they don't know.

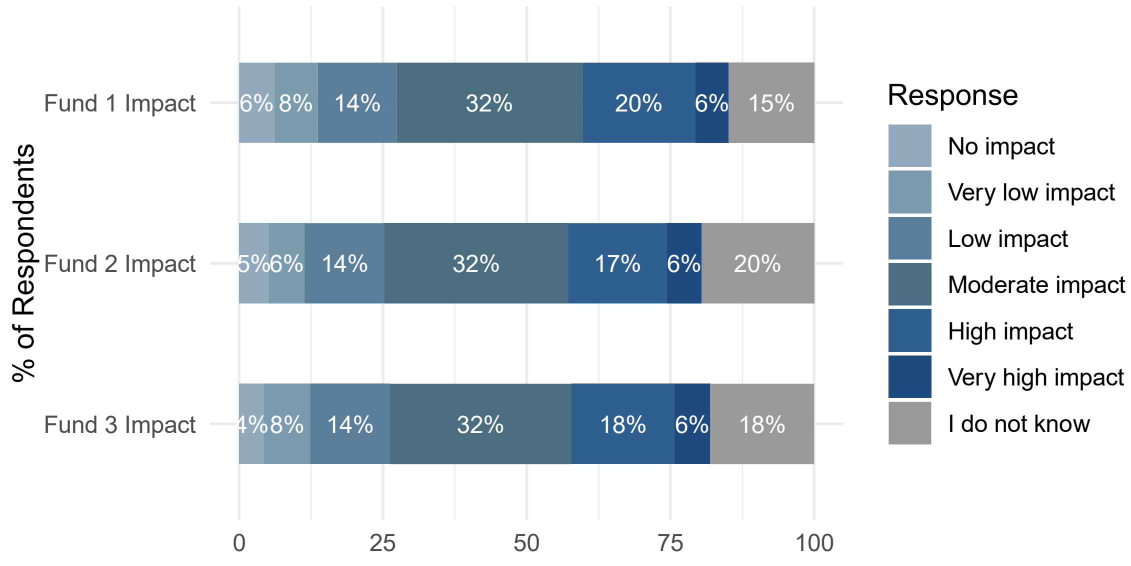

Figure 16. Investor perceptions of real-world impact across three sustainable fund strategies (N = 1000)

These findings highlight a broader challenge: many investors find linking fund strategies with tangible real-world outcomes difficult. While alignment with familiar global targets (e.g., the Paris Agreement) appears to boost perceived credibility, this alone is insufficient. To build trust and drive engagement, fund providers should focus on clear, outcome-oriented messaging and offer transparent, verifiable evidence of impact. Vague or exclusion-based approaches tend to leave more investors unconvinced or uncertain.

Interview participants frequently struggled to draw a clear line between ethical alignment and measurable impact. Many viewed sustainable investing primarily as a way to "support the right kind of companies" or "stay true to personal values," with limited consideration for whether those investments produced systemic change. Several interviewees used the terms *value-based investing* and *impact investing* interchangeably, only distinguishing them after further discussion. One participant candidly admitted, "If I'm honest, I don't really know what the difference is — they both sound good."

Reactions to the fund descriptions mirrored this ambiguity. While some respondents gravitated toward the Paris-aligned fund due to its recognisable language and perceived legitimacy, others expressed uncertainty or scepticism about what phrases like "net positive effect" or "exclusions" meant in practice. A few questioned whether the impact claims were "just marketing," while others said they would feel more confident if there were third-party validations or visible outcomes. These perspectives underline that while fund framing matters, trust ultimately hinges on clarity and evidence, not just aspirational wording.

3.3. Market size estimate for sustainable investments

To estimate the potential market size for sustainable investments across the countries involved in this study, we developed a practical and consistent methodology grounded in available survey data. This approach was necessary due to differences in survey structures compared to earlier studies by the Sustainable Finance Observatory[21,22], which limited direct replication of previous methods.

The estimation model relies on two key survey questions:

1. **Current Share**: Respondents were asked to indicate the current share of sustainable investments in their total investment portfolios.
2. **Future Intent**: Respondents were also asked whether they plan to invest (additional) funds in sustainable investments or sustainable finance products within the next three years.

These two inputs allow us to construct a coefficient that serves as a proxy for estimating potential market demand. In Estonia, the median category for the current share of sustainable investments was identified as 20%–40%. Among respondents, 49% indicated an intention to increase their sustainable investments in the coming three years. Applying this percentage to the lower and upper bounds of the identified range yields a multiplier between 0.098 and 0.196. This coefficient can be applied to population figures or aggregate investment volumes to derive demand estimates.

To enhance the robustness of this estimate, a margin of error of approximately ±3%, derived from the survey design, should be considered. While this methodology has limitations, including the inherent variability of self-reported data and the use of categorical ranges, it provides a replicable and transparent framework for cross-country comparison.

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[21] Sustainable Finance Observatory. 2023. *Moving the Blockers of Retail Sustainable Finance in Sweden*, https://sustainablefinanceobservatory.org/wp-content/uploads/2023/08/Moving-the-blockers-of-retail-sustainable-finance-in-Sweden.pdf
[22] Sustainable Finance Observatory. 2023. *Moving the Blockers of Retail Sustainable Finance in Poland*, https://sustainablefinanceobservatory.org/wp-content/uploads/2023/08/Moving-the-blockers-of-retail-sustainable-finance-in-Poland.pdf

The equation is defined as follows:

$$\boldsymbol{E = S_{low} \times P \quad \text{to} \quad S_{high} \times P} \qquad (1)$$

$$\boldsymbol{E_{adjusted} = E \pm M} \qquad (2)$$

Where:

- *E* = Estimated demand coefficient
- *S* = Share of current sustainable investments (as a decimal range, e.g., 0.2–0.4)
- *P* = Proportion of respondents planning future sustainable investments (e.g., 0.49)
- *M* = Margin of error (e.g., ±0.03)

When we adjust the estimated demand coefficient with the margin of error, we get a range from 0.068 to 0.226 when using the absolute margin of error. We used these coefficients to calculate the volume of potential sustainable investments and the number of potential households interested in sustainable investments.

For the potential volume of sustainable investments, we used the total volume of assets of Estonian households (~71€ billion)[23]. The volume of potential sustainable investments could potentially be in the range of 4.8€ to 16.0€ billion. If we use the same coefficient for the number of individuals, we could estimate a market size of 72 to 238 thousand people[24].

All these calculations make multiple assumptions. For example, they assume that all respondents interested in sustainable investments would invest sustainably in the exact same proportion as the current owners of sustainable investments. Additionally, these are self-reported values, which we cannot confirm. Therefore, these estimates should be presented with appropriate contextualisation to aid interpretation and ensure the findings are used responsibly. Feedback and suggestions for refining this methodology are welcome and encouraged.

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[23] Eurostat. 2025. Financial balance sheets - annual data. https://ec.europa.eu/eurostat/databrowser/view/nasa_10_f_bs/default/table?lang=en&category=na10.nasa_10.nasa_10_f

[24] Statistics Estonia. 2025. Total number of adult population multiplied by coefficients. https://andmed.stat.ee/et/stat/rahvastik__rahvastikunaitajad-ja-koosseis__rahvaarv-ja-rahvastiku-koosseis/RV021/table/tableViewLayout2

4. DISCUSSION

While our headline estimates suggest notable market potential for sustainable retail investing in Estonia, a closer look at public attitudes, current allocation patterns, and emerging industry dynamics signals that these forecasts must be treated with caution. The gap between investor interest and actual investment behaviour, well documented in prior 2DII research and reconfirmed by this study, remains substantial. Awareness is improving, but conviction and follow-through lag behind. Our findings show that just 22% of Estonian retail investors currently hold a sustainable investment product, despite nearly half expressing interest in future participation. This mismatch mirrors the broader "attitude–behaviour" gap observed across Europe.

Recent developments reinforce this caution. According to Eurobarometer 102 (2024), only 3% of Estonians cite climate or environmental issues as a top national concern, well below the EU average of 12%. In contrast, 52% cite inflation and 25% mention the general economic outlook, underscoring that economic anxieties currently dwarf ecological priorities.[25] These trends are reflected in market behaviour: in May 2025, LHV Asset Management announced the closure of its green pension fund range, citing insufficient scale and persistent underperformance.[26]

Such retrenchments reflect not just temporary market dynamics, but a deeper recalibration. As Estonian financial expert Peeter Koppel notes, the ESG narrative falters when the era of low interest rates ends and investors reprioritise hard returns over ideology.[27] This reflects a shift echoed across the EU: in early 2025, Article 9 funds endured their fifth straight quarter of net outflows, with €7.3 billion withdrawn in Q4 2024 alone. In contrast, Article 8 funds, which are broader and less stringent, attracted record inflows, particularly in fixed income.[28]

These shifts illustrate that investors remain highly cost-conscious and sceptical of ESG value propositions, especially when performance lags and complexity increases. Our survey confirms this scepticism: only 14% of Estonian retail investors believe sustainable products deliver higher returns, while 37% expect lower performance and 22% are unsure.

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[25] European Commission. 2024. *Special Eurobarometer 102: Climate Change*. October 2024. https://europa.eu/eurobarometer/surveys/detail/3215
[26] Äripäev. 2025. LHV lõpetab roheliste fondide tegevuse. *Äripäev*, May 19.
[27] Koppel. 2025. Üks muinasjutt sai läbi. Postimees Arvamus, January 21. https://arvamus.postimees.ee/8176679/peeter-koppel-uks-muinasjutt-sai-labi
[28] Bioy, Hortense, Boya Wang, Noemi Pucci, Arthur Carabia, and Biddappa A. R. "SFDR Article 8 and Article 9 Funds: Q4 2024 in Review, Inflows into Article 8 Funds Rise, but Redemptions from Article 9 Funds Continue." *Morningstar Sustainalytics – Healthcare Observer*, January 29, 2025

The perception of ESG as a "trade-off" persists, with many investors seeing value-aligned or impact investing as secondary to core financial outcomes.

Moreover, the findings show limited ESG literacy. Just 16% of respondents correctly defined ESG, and over 60% wrongly believed that all "sustainable" funds in the EU meet state-defined criteria. This regulatory overconfidence is compounded by a poor grasp of real-world impact mechanisms—many believe that simply buying a low-carbon fund reduces emissions, and half are unaware of whether ESG funds engage in active stewardship. These findings resonate with Kleffel and Muck (2023) and Marti et al. (2023), who document how retail investors often conflate ethical alignment with tangible societal outcomes, even in the absence of clear evidence or strategy-level transparency.[29,30]

To close the gap between intention and action, three strategic priorities emerge for providers, regulators, and educators:

1. Position ESG as a resilience strategy, not an ethical premium. Rather than framing ESG as an altruistic add-on, products should be marketed as tools for managing financial risks—whether from supply chain volatility, regulatory exposure, or inflation-linked costs. For example, transition-linked bonds or green credit products can be pitched as sources of stable income that hedge long-term risks while delivering tangible environmental benefits.

2. Radically simplify product design and communication. Our qualitative interviews revealed deep confusion between ESG, ethical investing, and impact strategies. Investors want plain language, visual cues, and real-world examples—not technical jargon or ambiguous fund names. The ongoing wave of Article 8/9 fund rebrandings shows that current frameworks are too complex. Streamlining to a few clearly defined, flagship products backed by third-party labels can build trust and reduce cognitive barriers.

3. Diversify the ESG offering beyond equities. Sustainable investing in Estonia is currently concentrated in a small range of equity-focused products. Broader uptake requires accessible, lower-risk vehicles such as green savings accounts, sustainable fixed-income ETFs, and ESG-integrated pension plans. Our findings show strong interest in learning—especially through digital self-guided content—and a readiness to explore greener options if clearly presented. Embedding ESG defaults into pension or robo-advisor platforms could mainstream participation.

[29] Kleffel & Muck. 2023. Aggregate Confusion or Inner Conflict? An Experimental Analysis of Investors' Reaction to Greenwashing. *Finance Research Letters,* 53, https://doi.org/10.1016/j.frl.2022.103421
[30] Marti et al. 2023. The Impact of Sustainable Investing: A Multidisciplinary Review. *Journal of Management Studies* 61, 5: 2181–2223. https://doi.org/10.1111/joms.12957

Technology will also play a central role in the next phase. As Xu (2024) notes, the integration of AI tools, from natural language processing to machine vision, is already transforming how institutions monitor ESG risks, verify disclosures, and personalise retail investor experiences. Automating due diligence, compliance with MiFID/IDD disclosure rules, and even chatbot-assisted ESG education can enhance both transparency and scale, especially as regulatory complexity increases.[31]

Ultimately, while our demand-side estimates show promise, they hinge on a narrow base of financially literate, higher-wealth investors. Median allocations to sustainable investments remain modest (20–40%), and diversification within ESG portfolios is low. The symbolic appeal of "doing good" is real, but unless investors feel confident that their money drives credible outcomes without sacrificing performance, green investing will remain a niche pursuit. Building a trusted, intelligible, and outcome-oriented sustainable finance ecosystem is the prerequisite for closing this persistent intention–action gap.

[31] Xu, J. (2024). *AI in ESG for Financial Institutions: An Industrial Survey*. arXiv:2403.05541.

CONCLUSION

This report offers a demand-side snapshot of Estonian retail investors' attitudes, behaviours, and understanding of sustainable finance. The findings confirm a moderately receptive but cautious market, marked by high normative support for sustainability, yet restrained by knowledge gaps, scepticism, and structural barriers to action.

Despite a strong expressed interest, nearly half of all respondents intend to invest more sustainably within three years, only 22% currently hold a product they consciously identify as sustainable. This gap is not unique to Estonia, but reflects a broader EU-wide trend in which sustainability preferences frequently fail to translate into portfolio decisions. The Estonian case, however, is shaped by particular conditions: a generally high baseline of financial literacy, a pragmatic and risk-aware investor profile, and a national context where economic concerns, such as inflation and income stability, remain far more salient than environmental ones.

The data show that while awareness of sustainable investing has grown, especially among higher-income investors, the depth of understanding remains limited. ESG knowledge is skewed toward the environmental dimension, with social and governance aspects poorly understood. Regulatory misconceptions are widespread: a majority of respondents incorrectly assume that all "sustainable" products in the EU are governed by uniform state criteria. Meanwhile, the real-world impact of sustainable investing is often overestimated or misunderstood – many investors believe that buying low-carbon funds directly reduces emissions, and few grasp the role of stewardship or systemic influence.

Investor motivations are layered: financial return remains the top priority, followed by ethical alignment, and then, the goal of generating real-world impact. These priorities hold across demographic and wealth groups. Qualitative data reinforce this hierarchy, revealing a consistent demand for sustainability features that are additive to, rather than traded off against, financial performance. Moreover, participants frequently conflated value-based and impact investing, illustrating the need for clearer conceptual distinctions and guidance.

The study also estimates a potential sustainable investment market in Estonia ranging between €4.8 and €16 billion, or 72 to 238 thousand prospective investors. However, these figures should be interpreted with caution. They rely on self-reported intentions and assume behavioural consistency across investor segments. The actual realisation of this potential will depend on market dynamics, regulatory developments, and the ability of financial institutions to meet investors' needs for clarity, simplicity, and credibility.

Closing the persistent intention–action gap requires a concerted effort across actors. Providers must reposition sustainable products not as ethical premiums but as resilient, risk-aware investments. Communications must move away from jargon and toward narrative-driven, visual, and verifiable messaging. Policymakers should continue strengthening regulatory clarity while supporting tools and platforms that empower self-directed learning. Technology, particularly AI-enabled solutions, offers promising pathways for increasing transparency and personalisation at scale.

In sum, Estonian retail investors are open to sustainability, but not yet confident. A trusted, intelligible, and outcome-oriented financial ecosystem is essential to converting this openness into action. The groundwork has been laid; the challenge now lies in building the next phase of sustainable investing with integrity, accessibility, and measurable real-world relevance.