Assessing the Supply of 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 supply-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 demand-side research carried out in Estonia and parallel studies in Romania and Bulgaria.

The bigger picture: credibility of sustainable finance

Mobilising private capital is critical for Europe's green transition. Yet credibility concerns around sustainable finance threaten to undermine its ability to channel funds effectively. Across the EU, questions have been raised about misleading marketing, weak product design, and inconsistent advisory practices. Estonia provides a particularly telling case: a small, concentrated market where sustainability claims are highly visible but substantive implementation is limited.

Objectives and scope

The research examines how sustainability is integrated into product design, fund marketing, and retail distribution in Estonia. The report focuses solely on the supply side, while complementary publications address retail investor demand.

Methods

The study integrates three complementary methods:

- **Claims analysis:** Review of environmental impact claims across 62 Article 8/9 funds marketed in Estonia.
- **Impact Potential Assessment (IPAF):** Deep-dive assessment of six products to evaluate the robustness of investor-contribution mechanisms.
- **Mystery shopping:** Sixteen in-person consultations at major retail banks to test how advisors elicit and integrate client sustainability preferences.

Key findings at a glance

1. **Sustainability is visible in marketing but often misleading.**

- 37% of reviewed funds included environmental impact claims; more than half of these were misleading (56% false, 44% unclear).
- Misleading claims appeared not only in brochures but also in formal disclosures (KIIDs/KIDs, prospectuses, SFDR annexes).
- Article 9 funds, despite being few in number, accounted for a disproportionate share of false claims. Social impact claims were virtually absent.

2. **Impact potential of assessed products is minimal.**

- Of six funds assessed, five scored the lowest IPAF rating (F) and one scored E; the average score was just 0,99 out of 6.
- Products lacked credible investor-contribution mechanisms, such as capital additionality, concessional terms, or structured stewardship.
- "Impact" branding was rarely supported by measurable outcome pathways or reporting.

3. **Advisory practices fail to operationalise sustainability.**

- Advisors seldom raised sustainability proactively; clients had to introduce the topic themselves.
- Even when preferences were expressed, they rarely influenced the final recommendation.
- Banks relied heavily on in-house products and pensions, limiting investor choice. Advisors' sustainability knowledge and anti-greenwashing explanations were rated weak.

4. **Market structure amplifies risks.**

- Only 62 Article 8/9 funds are genuinely available to retail investors in Estonia, tiny compared to larger EU markets.
- Estonia's investment fund market is small (≈5% of GDP) and distribution is concentrated in banks.
- In such a narrow system, even a few misleading claims or poorly designed products can shape the entire landscape.

Strategic implications

- **Regulatory enforcement must be strengthened.** Misleading claims demonstrate that existing UCPD, MiFID II, and SFDR frameworks are not consistently applied. Supervisors should prioritise substantiation of environmental impact claims, particularly for Article 9 funds.

- **Investor trust is at risk.** The gap between sustainability rhetoric and delivery undermines confidence and may deter engagement just as investor demand is beginning to grow.
- **Opportunities for reform exist.** Targeted supervisory action, improved suitability practices, and credible product design can rapidly shift the market given Estonia's small scale and institutional concentration.

Conclusion

Estonia's sustainable finance market currently promises more than it delivers. Sustainability language is widespread, but product features and advisory practices fall short of generating measurable outcomes. Because the market is small and concentrated, these shortcomings are especially consequential, but also more easily addressed. By enforcing substantiation standards, raising product credibility, and embedding sustainability in advisory workflows, Estonia can rebuild investor trust and position its retail market as a credible contributor to Europe's green transition.

LIST OF ABBREVIATIONS

Abbreviation	Definition
2DII	2° Investing Initiative
AUM	Assets Under Management
BMWK	Bundesministerium für Wirtschaft und Klimaschutz (Federal Ministry for Economic Affairs and Climate Action, Germany)
CSA	Common Supervisory Action (by ESMA and NCAs)
DG FISMA	Directorate-General for Financial Stability, Financial Services and Capital Markets Union (European Commission)
EIOPA	European Insurance and Occupational Pensions Authority
ESG	Environmental, Social and Governance
ESMA	European Securities and Markets Authority
EU	European Union
EUKI	European Climate Initiative
FSA	Financial Supervisory Authority (Estonia)
GDP	Gross Domestic Product
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit
IBS	Institute of Baltic Studies
IPAF	Impact Potential Assessment Framework
ISF	Institute of Financial Studies
KIID/KID	Key Investor Information Document / Key Information Document (PRIIPs)
MiFID II	Markets in Financial Instruments Directive II
NCA	National Competent Authority (EU financial supervisors)
NGFS	Network for Greening the Financial System
PRIIPs	Packaged Retail and Insurance-based Investment Products Regulation
SFDR	Sustainable Finance Disclosure Regulation
SME	Small and Medium-sized Enterprise
UCPD	Unfair Commercial Practices Directive
UN SDGs	United Nations Sustainable Development Goals

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 (formerly 2° Investing Initiative, 2DII) to investigate the supply side of Estonia's sustainable retail investment market. The study focuses on how financial institutions market, structure, and present sustainable investment products, as well as how financial advisors assess and integrate sustainability preferences into financial product recommendations. This research complements a parallel demand-side study conducted under the same project framework.

The project was carried out 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 to support the implementation of the EU Sustainable Finance Action Plan, particularly with respect to supervision, product distribution (Action 4 SFAP), and regulatory frameworks such as MiFID II and IDD. In doing so, it seeks to improve the quality and transparency of sustainable investment offerings available to retail investors and ensure that environmental impact claims for financial products are aligned with actual sustainability outcomes.

This report focuses exclusively on supply-side dynamics, including fund marketing, impact potential, and advisory practices. It does not include investor attitudes or preferences, which are the subject of a separate demand-side report conducted under the same research project[1].

The findings across the three research components in earlier research reveal critical weaknesses in the credibility, structure, and distribution of sustainable retail investment products in Europe. A review of environmental impact claims in Article 8 and 9 funds showed that over a quarter of the products included such claims, yet none were found to be sufficiently substantiated under the criteria set by the Unfair Commercial Practices Directive (UCPD), indicating a widespread risk of misleading marketing. These claims frequently relied on vague or unprovable assertions, often conflating company impact with

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

investor impact, and were most prevalent in Article 9 funds, which are ostensibly the most sustainable.[2]

Complementing this, an application of the Impact Potential Assessment Framework (IPAF), a methodology to assess financial products based only on their actions to generate real-life impact, revealed that most investment products had limited or no mechanisms for delivering real-world environmental benefits, with many depending on weak or unproven investor influence strategies.[3]

Finally, mystery shopping and advisor behaviour analysis showed that financial institutions are failing to meaningfully integrate sustainability preferences into the advisory process, with sustainability either overlooked or addressed in ways that do not comply with MiFID II requirements. Collectively, these results suggest that while sustainable investing is growing in prominence, its implementation on the supply side often falls short of regulatory expectations and investor intent.[4]

This research combines three methodological approaches to assess the credibility and structure of sustainable finance offerings in Estonia:

Environmental impact claims analysis: We reviewed the marketing materials and official disclosures of 62 Article 8 and Article 9 public investment funds available to Estonian retail investors. Using criteria established under the Unfair Commercial Practices Directive (UCPD) and relevant interpretive guidance, we assessed the extent to which the claims made in the marketing materials were specific, substantiated, and compliant with legal standards. Across these 62 funds, we identified and classified a total of 25 misleading environmental impact claims.

Impact Potential Assessment Framework (IPAF): To evaluate the real-world impact potential of sustainable investment products, we applied the IPAF methodology developed by SFO. The framework was used to assess a total of 5 sustainability-oriented private market funds and crowdfunding instruments, which are increasingly offered as alternatives to traditional investment products. Given the limited availability of private market products in Estonia, we extended the analysis to an additional 1 public market fund marketed with a sustainability objective.

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[2] Sustainable Finance Observatory. 2023. *Market Review of Environmental Impact Claims of Retail Investment Funds in Europe,* https://sustainablefinanceobservatory.org/wp-content/uploads/2023/08/2DII_Market-review-of-environmental-impact-claims.pdf

[3] Sustainable Finance Observatory. 2023. *The Impact Potential Assessment Framework (IPAF)*, https://sustainablefinanceobservatory.org/wp-content/uploads/2023/03/The-Impact-Potential-Assessment-Framework-IPAF-1.pdf

[4] Sustainable Finance Observatory. 2023. *Assessing Client Sustainability Preferences: Lost in the Maze, https://sustainablefinanceobservatory.org/wp-content/uploads/2023/02/Assessing-client-sustainability-preferences-%E2%80%A6-lost-in-the-maze_FINAL.pdf*

Mystery shopping visits: To gain insight into how sustainability preferences are integrated into retail financial advice, we conducted 16 mystery shopping visits across four major banking chains in Estonia. Mystery shoppers were equipped with predefined investor profiles and assessed advisor behaviour, the treatment of sustainability preferences, and the appropriateness of recommended products. This approach allowed us to observe how EU regulatory requirements regarding the assessment of client sustainability preferences are being operationalised in practice.

Together, these approaches provide a complete view of not only what products claim and can achieve, but also how they are recommended in practice.

The following chapters present the key findings from this research. Chapter 1 analyses environmental impact claims found in the marketing materials of public retail investment funds, assessing their clarity, substantiation, and compliance with legal standards. Chapter 2 applies the Impact Potential Assessment Framework (IPAF) to a sample of private and public market funds to evaluate the likelihood that these products can generate real-world environmental benefits. Chapter 3 presents the results of mystery shopping visits to financial advisors, highlighting how sustainability preferences are elicited, interpreted, and acted upon in client consultations. 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 methodological support and guidance from the Sustainable Finance Observatory. We are especially grateful to David Cooke, Nicola Koch, and other colleagues whose contributions have been invaluable throughout the research process. Our sincere thanks also go to the financial professionals, institutions, and mystery shoppers whose participation made this study possible.

1. ENVIRONMENTAL IMPACT CLAIMS

This chapter is based on a structured analysis of environmental impact claims in investment fund marketing materials targeted at Estonian retail investors.

1.1. Market scope and sample composition

The fund sample was derived from the Lipper database[5] and filtered through a systematic methodology by the Sustainable Finance Observatory[6]. The initial list was then refined to reflect the actual availability of funds in the Estonian retail market.

We began by identifying investment funds marketed to Estonian retail clients via the Lipper database. These included funds domiciled across the EU and beyond but made publicly available through distribution networks in Estonia. For each fund, we gathered basic attributes including:

- Fund domicile and legal structure,
- Asset class and strategy,
- Assets under management (AUM),
- Sustainable Finance Disclosure Regulation (SFDR) categorisation,
- Investment objective and descriptive content.

To complement this information, we (1) collected information on whether each fund was categorised as an Article 8 or an Article 9 financial product; (2) included a filter for the word impact; and (3) conducted a keyword search to identify funds that were deemed to consider environmental, social and/or governance criteria through including one or more of the keywords (Table 1) in the description of the fund's investment objective as stated in the Lipper database.

Table 1. List of keywords for Lipper

Alternative energy	*Climate*	*Clean energy*
Climate change	*Community*	*Contribution*
Corporate responsibility	*Development*	*Ecology*
Ecological	*Energy efficiency*	*Environment*
Environmental	*ESG*	*Ethical*
Global development	*Global warming*	*Goal*

[5] Lipper. 2025. Lipper Fund Data. LSEG (London Stock Exchange Group). https://www.lseg.com/en/data-analytics/financial-data/fund-data/lipper-fund-data.

[6] Sustainable Finance Observatory. 2023. *Market Review of Environmental Impact Claims of Retail Investment Funds in Europe.* https://sustainablefinanceobservatory.org/resource/market-review-of-environmental-impact-claims-of-retail-investment-funds-in-europe/

Governance	*Green*	*Improve*
ISR	*Just*	*Net zero*
Net-zero	*Obligation*	*Paris Agreement*
Positive	*Renewable*	*Responsible*
Social	*Socially responsible investing*	*Society*
Solar	*SRI*	*Strategy*
Sustainability	*Sustainable*	*Sustainable development*
Temperature	*Transition*	*Warming*
Wind		

While the initial Lipper sample included 190 funds, further verification revealed that many of them were not actually accessible to Estonian retail investors. Several asset managers were included in the database despite having expired Estonian activity licenses. Consequently, these were excluded from the analysis.

Conversely, we identified additional relevant Article 8 and 9 funds promoted by licensed asset managers that were absent from the Lipper dataset. These were incorporated into the revised sample. The revised sample included a total of 62 funds.

Market context and availability

Among the 62 reviewed funds, both Article 8 and Article 9 categories were represented, as well as funds without a fundamental objective of sustainable investment but with relevant keywords. However, only 11%, a total of 7 funds, were classified as Article 9, highlighting their limited availability in the Estonian market. In comparison, Article 8 funds composed 74% of the total sample, while 15% did not receive a category but included relevant keywords. Although the Lipper database suggests a similar ratio of Article 9 to Article 8 funds EU-wide, the overall number of available funds in Estonia is significantly lower than in other countries.

This discrepancy reflects a broader structural limitation within the Estonian retail fund market. According to Lipper, over 116,000 funds are registered in the EU, 66,000 of which are labelled as Article 8 or 9. Yet Estonian retail investors can access only about 220 funds in total, approximately 150 of which are Article 8 or 9. After adjusting for expired licenses and misclassified access, just 62 sustainable funds remain truly available. This hints that even if the demand is not negligible[7], the pool of available options is fairly narrow, especially when compared to what's accessible in other EU markets.

By contrast, according to the Lipper database retail investors in France and Germany have access to approximately 5,000 and 6,000 Article 8 or 9 funds, respectively. This stark

[7] See also Kirill Jurkov, Tarmo Kalvet, Marek Tiits, Maris Pihelgas. 2025. Understanding the Demand for Retail Sustainable Finance in Estonia. Tartu: Institute of Baltic Studies.

disparity underscores the structural underdevelopment of the sustainable investment landscape in Estonia.

1.2. Classification framework for impact claims

This section provides an overview of the different types of environmental impact claims observed in investment fund marketing materials. The classification draws on the methodology developed by the SFO, based on the updated Guidance on the UCPD and the Multi-Stakeholder Dialogue on Environmental Claims (MDEC) compliance criteria.[8]

Environmental impact claims are defined as messages, either explicit or implied, that suggest a causal relationship between an individual's investment and real-world environmental outcomes. The analysis focused on identifying and categorising claims in both legal and promotional documents, including fund names, key investor information documents (KIIDs), prospectuses, and SFDR disclosures.

Categories of claims

The claims were classified into four distinct categories based on their clarity, specificity, and evidentiary support:

- **False claims**: These are claims that are factually incorrect or misleading due to conceptual inaccuracies. A common example is the conflation of investor impact with investee company impact. For instance, a fund may claim that lowering its portfolio carbon footprint results in measurable reductions in global emissions, despite the lack of scientific consensus or empirical evidence to support such causality, particularly in secondary markets.
- **Unclear claims**: These are claims that are not clearly defined or substantiated. They often include vague references to sustainability objectives or general positive outcomes without providing a transparent mechanism or supporting data. For example, a fund may state it "contributes to the UN Sustainable Development Goals" without clarifying how this contribution is achieved or measured.
- **Generic claims**: These are broad, non-specific statements that imply environmental benefits without offering supporting information. Generic claims are frequently found in fund names, such as "Green Future Equity" or "Impact Bond Fund", which may signal positive environmental intent but fail to explain how such impact is achieved or verified.

[8] For a more thorough overview of the original methodology, please refer to Sustainable Finance Observatory. 2023. *Market Review of Environmental Impact Claims of Retail Investment Funds in Europe,* https://sustainablefinanceobservatory.org/resource/market-review-of-environmental-impact-claims-of-retail-investment-funds-in-europe/

- **Not misleading**: A subset of claims that do not breach the UCPD framework. These include cases where terminology is strictly aligned with regulatory language (e.g., referencing Article 9 classification) and avoids implying investor impact. However, even these claims risk being misunderstood by retail investors without additional context.

From the earlier work by SFO[9], we know that around one-fourth of the funds included environmental impact claims in their materials. Among the claims reviewed in the broader sample, the majority were deemed misleading:

- False claims were most commonly associated with Article 9 funds and frequently relied on faulty impact attribution methods.
- Unclear claims often appeared in both legal disclosures and commercial brochures, reflecting a lack of consistency and transparency in substantiation.
- Generic claims were most prevalent in fund names and general promotional materials.

In several instances, funds used investor-oriented language, such as "your investment will help save the planet", without disclosing any theory of change, measurable pathway to impact, or supporting data. In some cases, misleading claims were embedded in otherwise regulatory-compliant documents such as SFDR disclosures or KIIDs, highlighting gaps in enforcement and interpretation.

Therefore, the earlier results in other EU countries highlight that environmental impact claims in fund marketing are not only widespread but also frequently lack the necessary clarity and substantiation to meet consumer protection standards. They also underscore the importance of distinguishing between company-level environmental performance and investor-level impact, a distinction that is often blurred in communication practices. These results also set expectations for the analysis of tools in the Estonian market.

1.3. Findings and patterns of misleading claims

In our analysis of products available on the Estonian market, we identified a total of 25 impact claims that were classified as misleading, either *false* or *unclear*. Although we initially considered using the *generic* category, we ultimately applied it only when a fund name included an impact-related term but did not contain any actual impact claims. This decision allowed us to draw a clear distinction between "unclear" and "generic" categories. As a result, no claims in the sample were classified as *generic,* as all funds with an impact-related term in their name also contained some sort of impact claim.

[9] Sustainable Finance Observatory. 2023. *Market Review of Environmental Impact Claims of Retail Investment Funds in Europe,* https://sustainablefinanceobservatory.org/resource/market-review-of-environmental-impact-claims-of-retail-investment-funds-in-europe/

Additionally, we did not provide a quantitative count of claims considered *not misleading*. Identifying such claims with precision proved unreliable, as some may have appeared multiple times across different documents or gone unnoticed altogether due to ambiguous phrasing, while still remaining compliant with the UCPD. These claims often involved promotional language used to describe sustainable characteristics without asserting direct impact. To avoid introducing false precision or overstating the prevalence of credible claims, we chose to focus solely on those that raised identifiable concerns (*false* or *unclear*). As a result, claims considered not misleading are discussed only from a qualitative perspective.

A quantitative summary of fund classifications and misleading claims is shown in Figure 1. The data illustrates the proportion of funds containing misleading impact claims, as well as the breakdown between claims deemed false and unclear. The results show that just over a third (37%) of the reviewed funds included environmental impact claims, indicating that such messaging is present but not overly widespread in the Estonian retail market. However, when assessed against the results from other countries, specifically France and Ireland (27%)[10], the share of funds containing impact claims is significantly higher. However, the sheer number of funds in Estonia is significantly lower, so every additional impact claim has a disproportionately large impact on the overall percentage.

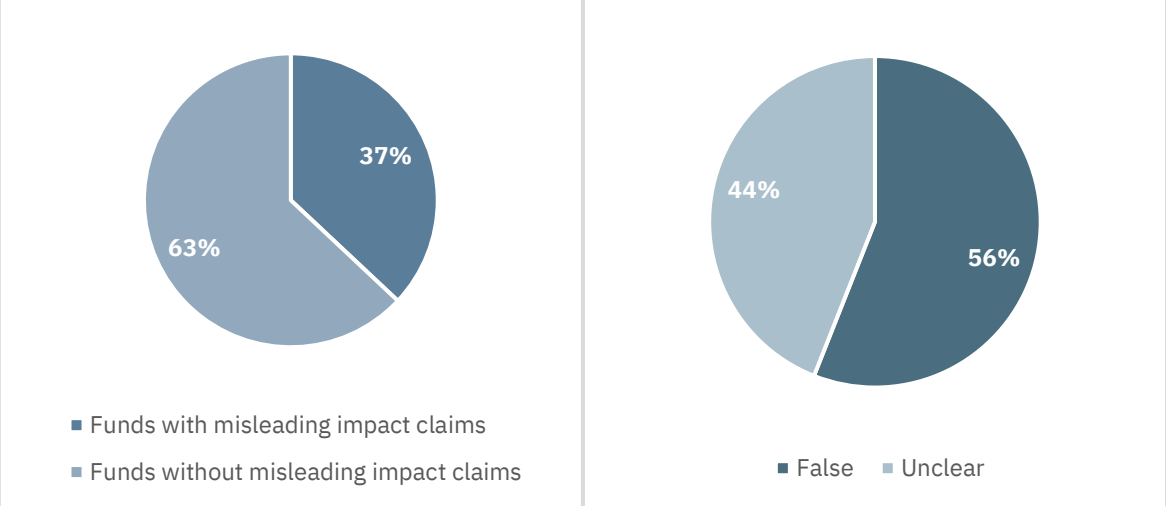

Figure 1. Classification of funds (N = 62) and misleading impact claims (N = 25[11])

Among the 25 misleading claims identified, a majority (56%) were classified as false, suggesting that many claims made a direct or implied promise of real-world impact without sufficient evidence or a valid causal mechanism. The remaining 44% were considered

[10] Sustainable Finance Observatory. 2023. *Market Review of Environmental Impact Claims of Retail Investment Funds in Europe,* https://sustainablefinanceobservatory.org/resource/market-review-of-environmental-impact-claims-of-retail-investment-funds-in-europe/

[11] A total number of funds with misleading claims is 23. However, a total number of claims is 25 as two funds contained a couple of such claims.

unclear, reflecting issues such as vague wording, lack of substantiation, or ambiguous descriptions of sustainability objectives.

The claims presented in Table 2 illustrate the types of sustainability-related statements found in funds available to Estonian retail investors. *False* claims generally fell into two categories. The first involved assertions of direct environmental impact, such as contributing to climate change mitigation or creating a positive impact, without providing a credible causal mechanism or supporting evidence, thereby overstating the influence of retail investment. This is inconsistent with the UCPD, which requires that all marketing communications be clear, specific, and substantiated[12]. The second type involved the conflation of investee company performance with investor impact, a practice explicitly cautioned against by the European Securities and Markets Authority (ESMA), which stresses the need to distinguish between company-level sustainability characteristics and actual investor-driven outcomes[13].

While many of these claims employed the softer language of "contribution" rather than asserting full responsibility for impact, even such moderated language can still imply that an environmental or social impact is achieved. As a result, compliance with requirements under instruments such as the UCPD is necessary.[14] In the absence of substantiation to support these implications, such claims are potentially misleading and fall short of legal and supervisory expectations.

Table 2. Examples of claims classification

Claim type	Claim	Classification reason
False	*"The fund aims to contribute positively to climate change mitigation in line with the Paris Agreement..."*	Suggests real-world impact without substantiation.
	"Objective of the fund is to create positive environmental and social impact to help achieve the Paris Agreement goals..."	Conflates company performance with investor impact.

[12] European Commission. 2016. *Guidance on the Implementation/Application of Directive 2005/29/EC on Unfair Commercial Practices*. Brussels: European Commission. https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52016SC0163

[13] European Securities and Markets Authority (ESMA). 2022. *Supervisory Briefing: Sustainability Risks and Disclosures in the Area of Investment Management*. https://www.esma.europa.eu/sites/default/files/library/esma34-45-1427_supervisory_briefing_on_sustainability_risks_and_disclosures.pdf.

[14] European Union. 2019. *Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on Sustainability-Related Disclosures in the Financial Services Sector (Sustainable Finance Disclosure Regulation)*. Official Journal of the European Union L 317: 1–16. https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32019R2088.

Unclear	*"The fund is managed to contribute to the UN SDGs..."*	Vague wording and lacks measurable mechanism.
	"The fund promotes low emissions of carbon dioxide, net-zero goals and global UN goals via Environmental and Social engagement dialogue..."	Lists ambitions without clear implementation path.

Unclear claims, by contrast, often reference broad sustainability goals, such as the UN Sustainable Development Goals, or general ESG themes without explaining how the fund's activities contribute to achieving them. This lack of specificity and verifiability also renders such claims non-compliant with the standards of the UCPD, which requires that marketing statements be clear, truthful, and substantiated[15]. A second common pattern involves the use of promotional language around specific topics, such as reducing carbon dioxide emissions or advancing net-zero targets, without describing the underlying investment strategy or measurable outcomes. While the term "promotes" may appear more moderate than "contributes", such wording can still create the impression that a real-world environmental or social impact is being achieved. As such, these statements qualify as environmental impact claims and must be supported by documented evidence, including clear sustainability characteristics and binding elements in the investment process. In the absence of such substantiation, they risk misleading consumers and may fail to meet regulatory expectations.

Not misleading claims tend to use technical, regulation-aligned language, such as stating that a fund "promotes environmental and/or social characteristics", and avoid implying that investors achieve a direct real-world impact. While such statements are less likely to constitute environmental impact claims, their clarity and usefulness to retail investors are debatable, especially in the absence of explanatory context or supporting detail. The European Commission and ESMA have both highlighted that even otherwise compliant claims can become misleading in practice if they overstate a fund's sustainability ambition or fail to provide sufficient explanation.[16]

It also makes sense to look at the occurrence of impact claims across Article 8 and 9 funds. These are presented in Figure 2. Although Article 9 funds make up a small fraction of the

[15] European Commission. 2016. *Guidance on the Implementation/Application of Directive 2005/29/EC on Unfair Commercial Practices*. Brussels: European Commission. https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52016SC0163.

[16] European Securities and Markets Authority (ESMA). 2022. *ESMA Supervisory Briefing: Sustainability Risks and Disclosures in the Area of Investment Management*. https://www.esma.europa.eu/sites/default/files/library/esma34-45-1427_supervisory_briefing_on_sustainability_risks_and_disclosures.pdf.

Estonian market sample (7 funds compared to 46 Article 8 funds), they account for a disproportionately high number of false environmental impact claims. This suggests that higher SFDR classification does not necessarily correlate with stronger claim credibility.

While Article 8 funds more frequently included *unclear* claims, Article 9 funds more often made directly misleading or false assertions. This trend is consistent with findings from the broader EU context: earlier research by SFO shows that over two-thirds of misleading environmental impact claims occurred in Article 9 fund marketing, and most false claims were tied to the conflation of investor and company impact[17], an issue also observed in the Estonian sample. Additionally, these findings are consistent with broader EU-level research that has raised concerns about the gap between Article 9 product categorisation and actual impact potential[18].

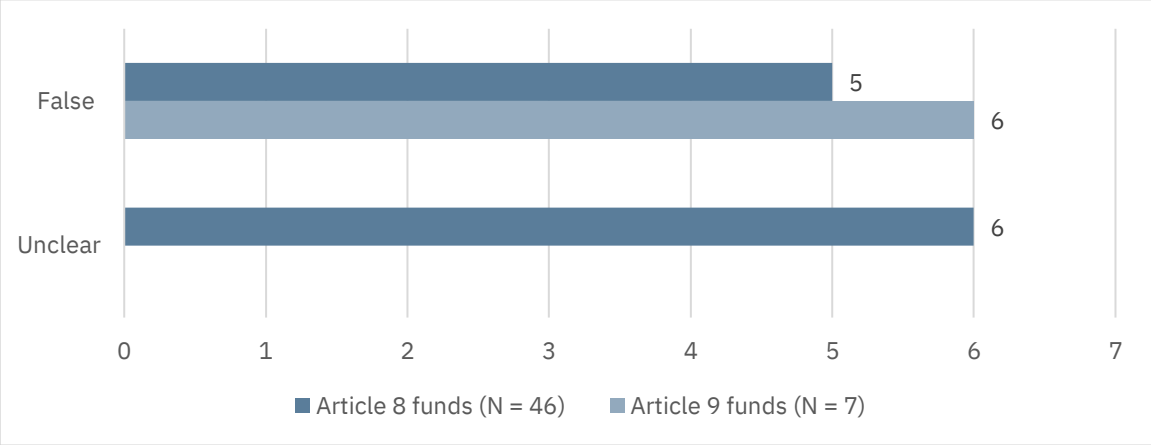

Figure 2. Number of misleading claims across Article 8 and 9 funds[19]

In addition to classifying the impact claims, we also documented in which documents they are most likely to appear. The distribution of environmental impact claims across documents reveals important insights into where misleading or potentially misleading claims are most likely to occur. False claims were primarily found in KIIDs and Prospectuses, particularly in the "Objectives" or "Sustainability Approach" sections. This

[17] Sustainable Finance Observatory. 2023. *Market Review of Environmental Impact Claims of Retail Investment Funds in Europe: Are Investment Products Living Up to Their Green Promises?* https://sustainablefinanceobservatory.org/resource/market-review-of-environmental-impact-claims-of-retail-investment-funds-in-europe/

[18] European Securities and Markets Authority (ESMA). 2024. *Final Report on Greenwashing*. https://www.esma.europa.eu/sites/default/files/2024-06/ESMA36-287652198-2699_Final_Report_on_Greenwashing.pdf

[19] This figure reflects an incomplete sample, as nine funds listed in the Lipper database did not have an assigned SFDR product category. For funds not included in Lipper, the SFDR classification was determined based on information provided in the fund's marketing materials.

aligns with previous EU-level findings showing that even legal disclosures governed by SFDR often contain conceptually incorrect representations of impact[20].

Unclear claims were concentrated in sustainability disclosures and annexes of prospectuses, where vague or aspirational language is common, but rarely substantiated. These typically failed to articulate how stated goals, like alignment with the UN SDGs, would be operationalised or measured. Not misleading claims appeared almost exclusively in KIIDs, using carefully aligned regulatory language (e.g., Article 8 references), and avoided attributing real-world outcomes to investor actions.

In the analysis of impact claims, our special focus was on the funds with the term *impact* in its name. Among the reviewed funds, there only one product with an impact-related term in its name. According to ESMA's 2022 supervisory expectations on fund names, funds using ESG- or impact-related terms must allocate at least 80% of assets to investments aligned with the promoted characteristics, and substantiate this alignment through clear investment strategy and disclosures[21]. In this case, the fund meets the 80% threshold as indicated in the SFDR product template (85%), and its strategy references an ambition for 50% of portfolio turnover to contribute to the UN SDGs.

However, the fund's impact-related claim, stating it contributes to the SDGs, was classified as unclear, as it lacks a transparent methodology for measuring that contribution or demonstrating causal impact. While the fund avoids false or generic statements, it still falls short of fully substantiating the implied real-world effect suggested by the term "Impact" in its name. This example highlights a broader concern raised by ESMA and the SFO: that naming conventions and sustainability claims must be reinforced with clear evidence and not rely solely on broad aspirational goals or internal classification systems[22].

Finally, while our analysis focused primarily on environmental impact claims, we also screened for social impact statements. The main finding is that no funds presented standalone social impact claims; rather, references to social outcomes appeared almost exclusively in conjunction with environmental messaging. For example, funds often cited alignment with the UN Sustainable Development Goals (SDGs), which inherently encompass both environmental and social dimensions. However, in nearly all such cases,

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[20] See also Sustainable Finance Observatory. 2023. *Market Review of Environmental Impact Claims of Retail Investment Funds in Europe,* https://sustainablefinanceobservatory.org/resource/market-review-of-environmental-impact-claims-of-retail-investment-funds-in-europe/

[21] European Securities and Markets Authority (ESMA). *Supervisory Briefing: Sustainability Risks and Disclosures in the Area of Investment Management*. ESMA34-45-1427. May 31, 2022. https://www.esma.europa.eu/sites/default/files/library/esma34-45-1427_supervisory_briefing_on_sustainability_risks_and_disclosures.pdf

[22] Sustainable Finance Observatory. 2023. *Market Review of Environmental Impact Claims of Retail Investment Funds in Europe,* https://sustainablefinanceobservatory.org/resource/market-review-of-environmental-impact-claims-of-retail-investment-funds-in-europe/

the social component was neither clearly defined nor independently substantiated. Terms like “social responsibility”, “inclusive growth”, or “positive social impact” were frequently used in passing, often alongside references to climate or environmental benefits, but without concrete indicators or causal pathways

This bundling of environmental and social concepts into generalised sustainability claims may obscure the distinct requirements and expectations. The lack of isolated social claims could reflect a market tendency to prioritise environmental narratives, possibly due to clearer metrics (e.g., emissions, energy use) and more developed guidance. This finding suggests a potential gap in how social impact is conceptualised, communicated, and verified in the Estonian retail investment market. However, it also needs to be noted that findings are in line with broader EU-level analysis by SFO, whose report found that explicit social impact claims were rare across all reviewed funds, and when they did appear, they were almost always embedded in combined “environmental and social” language, rather than standing alone[23].

Together, the findings show that while the use of impact-related language is relatively limited in volume, a significant share of it fails to meet clarity or truthfulness standards, raising concerns about the reliability of environmental claims made in fund marketing materials. It is also apparent that even a modest number of questionable claims can significantly shape the overall landscape in smaller markets, where investor choice is already limited. More broadly, the results highlight persistent gaps between regulatory expectations and actual marketing practices. Misleading impact claims are not restricted to promotional brochures but frequently appear in formal documents like KIIDs and SFDR disclosures, challenging the assumption that regulatory compliance ensures communication integrity.

Furthermore, the fact that Article 9 products, intended to represent those with a higher sustainability standard than Article 8 products, were responsible for a disproportionate number of false claims suggests that the problem of environmental impact claims is particularly acute among products striving for the highest sustainability ambitions, even though such products are not necessarily impact products.

Finally, the near-total absence of substantiated social impact claims, despite frequent reference to combined ESG goals, points to a broader need for clearer metrics and disclosure standards for social outcomes. Overall, these findings reinforce the importance of effective supervision, targeted guidance, and stronger evidentiary standards to ensure

[23] Sustainable Finance Observatory. 2023. *Market Review of Environmental Impact Claims of Retail Investment Funds in Europe,* https://sustainablefinanceobservatory.org/resource/market-review-of-environmental-impact-claims-of-retail-investment-funds-in-europe/

that sustainability claims are not only legally compliant but also meaningful and trustworthy for retail investors.

2. IMPACT POTENTIAL ASSESSMENT

This chapter applies the Impact Potential Assessment Framework (IPAF)[24], developed by the SFO, to evaluate the capacity of sustainable investment products available in Estonia to generate real-world environmental outcomes. The methodology is only explained briefly in this chapter, so for a more thorough overview, please see the original framework document.

2.1. Introduction and methodology

Unlike marketing claims analysis, which focuses on the credibility of communications, the IPAF assesses the substantive mechanisms through which an investor's capital or influence can contribute to environmental impact. In doing so, it distinguishes between an investee company's sustainability performance and the extent to which an investor can credibly claim to have caused or accelerated that performance.

The overall Impact Potential Score in the IPAF is determined by combining two dimensions: the *compartment's impact potential* and the *product's implementation score*. The compartment score reflects the maximum theoretical potential of a given product category to deliver real-world outcomes, based on the type of impact mechanisms available (e.g., engagement in public markets versus capital allocation in private markets). The implementation score, by contrast, measures the degree to which a specific product actually activates those mechanisms in practice, considering factors such as intensity, systematicity, and transparency of actions. The final score is therefore the product of the two values:

$$\textbf{\textit{Impact Potential Score}} = \textbf{\textit{Compartment Score}} \times \textbf{\textit{Implementation Score}}$$

This multiplicative structure ensures that both the inherent capacity of the product type and the concrete practices of individual funds are taken into account. A product in a high-potential compartment but with weak implementation will score low, just as a well-implemented product in a low-potential compartment will also have limited overall impact potential. In this way, the framework highlights not only theoretical opportunity but also the credibility of delivery in practice.

[24] Sustainable Finance Observatory. 2023. *The Impact Potential Assessment Framework (IPAF) for financial products*. https://sustainablefinanceobservatory.org/wp-content/uploads/2023/03/The-Impact-Potential-Assessment-Framework-IPAF-1.pdf

As an example, a private equity fund investing in early-stage renewable energy firms may be assigned a high compartment score, since private markets can directly channel capital into undersupplied segments and provide flexible financing. If the fund also demonstrates strong due diligence, concessional financing structures, and clear engagement policies, its implementation score will also be high, resulting in a strong overall rating. By contrast, a public equity ESG fund may fall into a lower compartment score because investor influence in secondary markets is mostly indirect. Even with excellent engagement and voting policies, its final score will be capped by the lower inherent potential of the compartment, leading to a more moderate rating.

The IPAF is grounded in the principle that sustainable finance should deliver more than portfolio alignment with environmental objectives. It should enable measurable, additional outcomes that would not have occurred without the investor's involvement. Building on this scoring logic, the IPAF evaluates products across five key impact levers:

1. **Selection aligned with impact strategy**: whether the product systematically selects investees or projects with high potential for positive environmental impact, and the transparency of that selection process.
2. **Grow undersupplied markets**: whether the product channels capital into segments that face financing constraints, thereby addressing structural funding gaps.
3. **Provide flexible capital**: whether the product offers concessional or otherwise tailored financing that improves investees' ability to deliver environmental benefits.
4. **Engage actively**: whether the product's managers use stewardship, engagement, or other investor influence strategies to improve investee performance on environmental outcomes.
5. **Signal to the market**: whether the product's strategy or activities encourage replication, set higher standards, or otherwise influence wider market behaviour.

In summary, each lever is scored on a four-point scale:

- 0: no evidence of contribution to impact;
- 1: minimal evidence of contribution to impact;
- 2: partial or moderate evidence;
- 3: strong evidence supported by clear policies, disclosures, or measurable outcomes.

While each lever is scored on a four-point scale, the IPAF recognises that different mechanisms vary in their empirical strength and relevance. Accordingly, the implementation score is calculated using a weighted approach. Questions within the same mechanism are equally weighted, and each mechanism is normalised to a total of 18 unweighted points. However, mechanisms that are strongly supported by academic

evidence – Grow undersupplied markets, Provide flexible capital, and Engage actively – are given double weighting, raising their maximum contribution to 36 points each. The General section is also double weighted, while Signaling is treated as a bonus category: it can increase a product's score but does not raise the maximum possible denominator. This design prevents strong products from being penalised for weak performance in a mechanism considered less robust in research, while rewarding products that effectively leverage mechanisms with the highest demonstrated impact potential. The final implementation score is expressed as a percentage of the maximum achievable score for the product's active mechanisms.

To provide a clear and communicable summary of results, the four-point IPAF lever scores can be aggregated and translated into an A–G rating scale. This allows for easier interpretation by stakeholders. Ratings reflect the overall consistency and strength of a product's impact mechanisms, from no evidence at all (G) to robust strategies with demonstrable alignment and measurable outcomes (A). The ratings, corresponding scores and their interpretation are presented in Table 3.

Table 3. IPAF scores and interpretation table

Impact Potential Score	Impact Potential Rating	Interpretation
0	**G**	No evidence of contribution; the product provides no credible mechanism for delivering environmental impact.
]0;1[	**F**	Minimal impact potential; actions are largely aspirational or symbolic with negligible real-world influence.
[1;2[	**E**	Weak impact potential; some mechanisms are present but inconsistently applied, offering limited credibility.
[2;3[	**D**	Moderate impact potential; certain mechanisms are used, but coverage is partial

		or not systematically implemented.
[3;4[	**C**	Fair impact potential; credible mechanisms exist with moderate strength, though gaps remain in execution.
[4;5[	**B**	Strong impact potential; mechanisms are well-developed, supported by clear processes and disclosures.
[5;6[	**A**	Very strong impact potential; robust, consistent, and transparent use of multiple mechanisms, with high likelihood of achieving additional outcomes.

Given the availability of products in the Estonian market, the IPAF methodology was applied using tailored criteria for three product categories:

- **Public market funds**: assessed on the strength of engagement strategies, selection criteria, and signalling, given the indirect nature of investor influence in secondary markets.
- **Private market funds**: assessed with greater weight on capital allocation, financing terms, and additionality, reflecting the more direct investor–investee relationship.
- **Crowdfunding instruments**: assessed with adaptations for platform-based intermediation, including project selection processes, support for underserved segments, and evidence of flexible or innovative financing structures.

While the methodology to assess the impact potential of deposits was also developed and available for use, it was not used due to the lack of products relevant for the analysis. Mapping of the products showed that there are no relevant sustainable saving deposits in Estonia.

The analysis focuses on the potential for impact rather than verified realised outcomes, recognising that impact delivery is contingent on both market conditions and execution over time. In the context of Estonia's relatively small and concentrated sustainable investment market, the IPAF provides a structured lens to assess whether available products are equipped to achieve their stated environmental objectives, or whether their potential remains largely aspirational.

It is important to note that IPAF scores are relative indicators rather than absolute judgments. They highlight the consistency and strength of investor-contribution mechanisms in comparison to a theoretical benchmark, but they do not measure realised environmental outcomes directly. The pilot test of the framework showed that scores tend to cluster in the lower ranges (E–F) across different markets, reflecting the current stage of development in sustainable finance rather than a uniquely weak performance of specific products.[25] In addition, the results are constrained by the availability of public information: many funds disclose little beyond high-level sustainability narratives, which necessarily limits the depth of scoring. For these reasons, IPAF findings should be interpreted as directional signals of strengths and weaknesses in product design, not as definitive verdicts on environmental performance.

2.2. Market scope and sample composition

The Impact Potential Assessment Framework (IPAF) was applied to a targeted subset of sustainable investment products available to Estonian retail and semi-professional investors. The objective was to assess products that, by their stated strategy or thematic focus, claimed or implied a capacity to deliver measurable environmental benefits.

The starting point was a broad market scan covering both private market funds and alternative financing instruments, including equity and debt crowdfunding platforms. This "long list" was compiled through:

- Review of public registries, platform disclosures, and investment databases;
- Screening for thematic relevance using sustainability and impact-related keywords;
- Verification of licence status and investor eligibility under Estonian law.

The initial list included a diverse range of product categories, from thematic private equity and venture capital funds to real-estate debt crowdfunding and donation-based community platforms to ensure a full coverage of the available products. The total number of products under consideration was 33.

[25] Sustainable Finance Observatory. 2024. *The IPAF pilot test*. https://sustainablefinanceobservatory.org/wp-content/uploads/2024/06/IPAF-Pilot-Test.pdf

From this long list, we applied inclusion criteria to select products for detailed IPAF scoring:

1. The product must be accessible to Estonian investors (either retail or qualified), with no regulatory or platform restrictions at the time of assessment.
2. The product must have a stated environmental focus or demonstrable alignment with sustainability themes (e.g., renewable energy, energy efficiency, sustainable infrastructure).
3. Sufficient publicly available information must exist to apply IPAF scoring with reasonable confidence.

Products were excluded if they:

- Lacked a clear environmental theme;
- Had no verifiable operational status (e.g., inactive or in orderly wind-down);
- Were fully restricted to institutional investors;
- Provided insufficient transparency on investment strategy, deal pipeline, or engagement practices.

The refined sample comprised only a total of 5 products: 4 thematic private equity/private debt/venture capital funds and 1 thematic equity crowdfunding. We then added 1 public equity fund with the term "impact" in its name that was also assessed in the environmental impact claims section. Therefore, the whole sample included 6 products.

While the initial scan identified a broader range of opportunities, the final sample reflects the limited pool of genuinely sustainability-related products accessible to Estonian investors. However, the pilot application of IPAF across several European markets demonstrated that coverage is inevitably constrained by transparency and data availability. Many products provide only marketing-level disclosures, leaving limited evidence to assess whether investor contribution mechanisms are systematically applied.[26] This finding reinforces that the Estonian sample is not an exception: in other countries too, the pool of genuinely sustainability-related products was small, and only a fraction could be meaningfully assessed within the framework. The limited coverage therefore reflects broader structural challenges in sustainable investment markets, rather than a peculiarity of the Estonian context.

2.3. Findings and patterns from the IPAF assessment

Of the six products assessed, five received an IPAF rating of F and one received E. Scores ranged from 0,43 to 1,62 with a median of 0,98 and an average of 0,99. No product reached

[26] Sustainable Finance Observatory. 2024. *The IPAF pilot test*. https://sustainablefinanceobservatory.org/wp-content/uploads/2024/06/IPAF-Pilot-Test.pdf

categories A–D. The single E-rated product was a sustainability-focused infrastructure fund; the rest, three forestry funds, one renewable-energy crowdfunding platform, and one global public-equity "impact" fund, were rated F.

Across the sample, products rarely demonstrated robust investor-contribution mechanisms beyond standard ownership or marketing language. Where high-control ownership existed (e.g., private vehicles owning assets outright), it did not translate into clear, impact-oriented engagement plans or financing designs capable of delivering additional real-economy outcomes.

When we looked at the results across the different impact levers, a consistent pattern of weaknesses became clear:

1) **Selection aligned with impact strategy: mostly basic (Score 1).** Most products cited high-level sustainability screens or intentions (e.g., renewable energy, FSC/PEFC-certified forestry, SDG contribution) but did not evidence an investment-by-investment impact-potential assessment (the "What/Who/How much" logic). As a result, selection typically met the threshold for Score 1 only.
2) **Grow undersupplied markets: weak to minimal.** Products seldom documented that investees face financing constraints, nor did they show they operate primarily in undersupplied primary markets. Evidence for innovative or tailored instruments was scarce (typically 0–1). Even where projects were green (e.g., renewable infrastructure), materials did not substantiate additionality in capital access.
3) **Provide flexible capital: absent.** Across the board, there was no evidence of concessional terms or impact-linked incentives. Structures were market-rate equity or debt; no instruments tied pricing or terms to environmental performance, and no cases demonstrated that flexible capital was necessary to make projects viable.
4) **Engage actively: influence without a plan.** Private vehicles with majority control/board seats scored high on "capacity to influence", yet typically lacked clear objectives/milestones, dedicated resources, and escalation frameworks. In public markets, fund-level engagement was generic and not evidenced at the product level. In short: governance power existed, but impact-oriented stewardship design did not.
5) **Signal to the market: limited and mostly cosmetic.** Most products signalled intent through names/policies. Outcome/impact communication was usually absent, with one notable exception: the infrastructure fund publicly reported investee-level outcomes (e.g., renewable MWh, avoided CO_2). No product used media to endorse/stigmatize practices or showed capacity to move market terms/prices.

When we considered the findings at the level of individual products, some differences between them stood out more clearly:

- **Infrastructure AIF (E, score 1,62):** Clearer disclosure and outcome reporting than peers; strong governance influence (systematic board seats). However, no concessional capital, weak evidence on undersupplied markets, and no explicit impact-linked incentives or escalation policies.
- **Forestry funds (F, 0,98):** Full control over assets and certified sustainable management, but no impact-potential selection per asset, no flexible/innovative financing, and no outcome reporting.
- **Renewable-energy crowdfunding platform (F, 0,94):** Innovative channel and frequent KPI communications to lenders, but no impact-screening model, no tailored/concessional terms, and lenders have no engagement leverage beyond standard creditor rights.
- **Global public-equity "impact" fund (F, 0.43):** SDG framing and coalition memberships, yet secondary-market constraints dominate: no capital additionality, limited deviation from market weights, no fund-specific engagement objectives, and no measurable signaling effects.

Finally, when we zoom out to look at the Estonian market in general, three broad takeaways emerge from the assessment:

1. **Impact levers are underused.** Products rarely demonstrate additional financing or impact-linked structuring; engagement exists but is not engineered for impact (no targets, resourcing, or escalation).
2. **Outcome transparency is the exception, not the rule.** Only one product provided consistent, investee-level outcome reporting; others relied on broad ESG narratives.
3. **Marketing ambition outpaces impact design.** Results reinforce Chapter 1: claims and labels are not matched by credible investor-contribution mechanisms, even among "impact-branded" offerings.

The findings point to a clear gap between the ambition of "impact-branded" investment products in Estonia and their actual ability to deliver measurable environmental outcomes. With five out of six products rated F and the highest score reaching only E, the assessment shows that most offerings rely on surface-level sustainability framing rather than robust, investor-driven contribution mechanisms. Even where products had strong ownership or governance control, these advantages were not systematically converted into structured engagement, concessional financing, or outcome-linked incentives.

Across impact levers, the weaknesses were consistent: product selection was generally high-level and not tailored to specific impact potential; undersupplied markets and flexible capital mechanisms were largely ignored; engagement capacity was rarely matched with concrete plans or escalation strategies; and signaling was often reduced to cosmetic branding. At the product level, only the infrastructure AIF demonstrated more advanced

disclosure and governance, while forestry, crowdfunding, and public-equity funds remained anchored in conventional structures.

Taken together, the results suggest that Estonia's sustainable investment market remains underdeveloped in its impact design. Marketing ambition clearly outpaces delivery, and transparency of real-world outcomes is scarce. However, the analysis also indicates that progress could be unlocked: introducing targeted approaches to underserved markets, embedding flexible or performance-linked financing, and adopting structured stewardship practices could substantially raise both the credibility and effectiveness of available products.

The Estonian results fit closely with what the broader European pilot of the IPAF already revealed: most "impact" or "sustainable" products still struggle to show how investors actually make a difference. With five out of six Estonian products rated F and only one reaching E, the picture may look stark, but it is not unusual. Across Europe, scores were similarly constrained, reflecting the same issues: thin transparency, reliance on standard financial structures, and few incentives for investors to go beyond labels.[27] In that sense, Estonia is less an outlier than a snapshot of a wider trend.

[27] Sustainable Finance Observatory. 2024. *The IPAF pilot test*. https://sustainablefinanceobservatory.org/wp-content/uploads/2024/06/IPAF-Pilot-Test.pdf

3. MYSTERY SHOPPING VISITS

This chapter presents the findings from a series of mystery shopping visits conducted across central retail banks in Estonia, designed to evaluate how financial advisors incorporate sustainability preferences into the advisory process. The mystery shopping methodology offers an empirical lens through which to assess whether MiFID II requirements on sustainability preferences are being meaningfully operationalised in client interactions. Drawing on the methodology developed by the SFO, this component of the study involved trained individuals posing as retail clients in real-world advisory consultations.

Each visit was guided by a standardised investor profile and evaluation protocol to assess compliance with the regulatory framework, advisor behaviour, and the quality of product recommendations. The analysis aims to uncover whether Estonian financial institutions adequately elicit, interpret, and act upon sustainability preferences in line with regulatory expectations, and whether these preferences ultimately influence the investment recommendations clients receive.

3.1. Methodology and regulatory background

The regulatory context for this study is shaped by Commission Delegated Regulation (EU) 2021/1253, which mandate the incorporation of client sustainability preferences into investment advice and portfolio management services. Advisors are now legally required to elicit, explain, and consider sustainability preferences, defined as preferences for (A) taxonomy-aligned investments, (B) SFDR-defined sustainable investments, and/or (C) products that consider principal adverse impacts (PAIs), when assessing suitability.[28] These changes, introduced under Action 4 of the EU Sustainable Finance Action Plan, aim to ensure that financial advice reflects financial and sustainability-related objectives. Supplementary guidance from the ESMA outlines additional expectations on neutrality, clarity of explanations, and documentation of client decisions.[29]

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[28] European Commission. *Commission Delegated Regulation (EU) 2021/1253 of 21 April 2021 amending Delegated Regulation (EU) 2017/565 as regards the integration of sustainability factors, risks and preferences into certain organisational requirements and operating conditions for investment firms*. Official Journal of the European Union, 2 August 2022. https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32021R1253

[29] European Securities and Markets Authority (ESMA). 2022. *Final report: Guidelines on Certain Aspects of the MiFID II Suitability Requirements, ESMA35-43-3172*. https://www.esma.europa.eu/sites/default/files/library/esma35-43-3172_final_report_on_mifid_ii_guidelines_on_suitability.pdf

To evaluate the implementation of these requirements, we conducted a total of 16 mystery shopping visits across four banking chains operating in Estonia. Although the initial plan foresaw 25 visits, achieving this number proved difficult due to practical constraints in booking consultations and reaching new advisors. In several cases, shoppers were redirected to the same advisor across different locations and formats (in-person, phone, or video), suggesting a low rotation of advisory staff and limited uptake of investment consultations overall. While some of this overlap may be coincidental, it may also reflect a broader structural observation: investment advisory services are not a widespread or routine practice in Estonia. In fact, the number of banking institutions offering retail investment consultations turned out to be smaller than initially assumed, reinforcing the perception that the Estonian market remains underdeveloped in this domain.

The mystery shopping methodology was designed in accordance with the SFO European campaign framework[30]. A diverse set of investor profiles was used to simulate a range of client types and ensure variability across consultations. These profiles combined three key variables: investment amount (€20,000 or €100,000), risk preference (low, medium, high), and sustainability preference (A: EU Taxonomy, B: SFDR, C: PAIs). In order to account for potential bias in advisor responses, mystery shoppers of different ages and genders were recruited to carry out the visits. This approach allowed for a more robust and nuanced assessment of how sustainability preferences are handled in a variety of interpersonal and financial contexts. A full list of visit profiles is presented in Annex 1.

The sections that follow present the core findings of the mystery shopping campaign. First, we assess whether and how advisors engaged with sustainability preferences during the consultation. We then examine the alignment between stated client preferences and recommended products, followed by an evaluation of advisor knowledge and broader systemic implications.

3.2. Integration of sustainability preferences in advisory practice

The findings from our mystery shopping campaign indicate that sustainability topics are rarely addressed proactively during investment consultations (Figure 3). While only 44% of mystery shoppers reported that advisors failed to raise sustainability considerations on their own initiative, a notably higher 75% stated that they had to actively steer the conversation toward sustainable investing themselves. This discrepancy is likely influenced by the structure of the advisory process in Estonia. Unlike in some countries where clients can walk into a bank branch and receive advice, Estonian institutions require clients to book an appointment in advance. During this pre-consultation stage, often

[30] Sustainable Finance Observatory. 2023. Assessing Client Sustainability Preferences… Lost in the Maze? https://sustainablefinanceobservatory.org/wp-content/uploads/2023/02/Assessing-client-sustainability-preferences-%E2%80%A6-lost-in-the-maze_FINAL.pdf

conducted over the phone, clients are asked to specify the topics they wish to discuss. In our case, mystery shoppers briefly expressed interest in sustainable investing during this phase, which may have prompted a cursory mention of the topic during the actual consultation.

Despite these contextual factors, the structure of the consultations remained broadly uniform. Advisors began with a brief suitability assessment, typically conducted verbally, covering basic parameters such as investment amount, risk tolerance, and time horizon. They then outlined the types of services, types of accounts, and products offered by the bank and proceeded to present specific investment products, all of which were displayed on the bank's website. Notably, every visit included a demonstration using the institution's digital platform.

Nevertheless, a substantial portion of shoppers, 44%, reported that the advisor did not provide guidance on sustainable investment products, and the same proportion noted that they had to initiate the discussion on sustainability preferences themselves. These findings suggest that, while the topic of sustainability is occasionally addressed, it is not consistently integrated into the advisory process.

It is important to note that the issue does not appear to lie primarily with advisor competence or diligence. Only one instance was reported in which a sustainability preference was incorrectly entered into the advisory system, and no shopper reported that an advisor misrepresented their preferences in writing. Rather, the underlying constraint appears to be limited product availability within the Estonian market, as outlined earlier in this report. As a result, sustainability preferences were often not satisfied for the recommendations provided.

Among the various aspects where mystery shoppers had to steer the advisor towards covering essential aspects of financial advise process, sustainability preferences were the most frequent. Other areas of intervention included the suitability declaration (38%), provision of key information documents (25%), and discussion of risk preferences (25%). A quarter of shoppers reported no need for intervention at all. These findings likely reflect structural characteristics of the Estonian advisory system, in which document completion is often not an integral part of the standard consultation process even though it is a legal requirement. That said, in instances where clients were referred to portfolio managers,

more formalised procedures, such as standardised risk assessments, declarations of suitability, and inquiries into financial knowledge, were typically conducted.

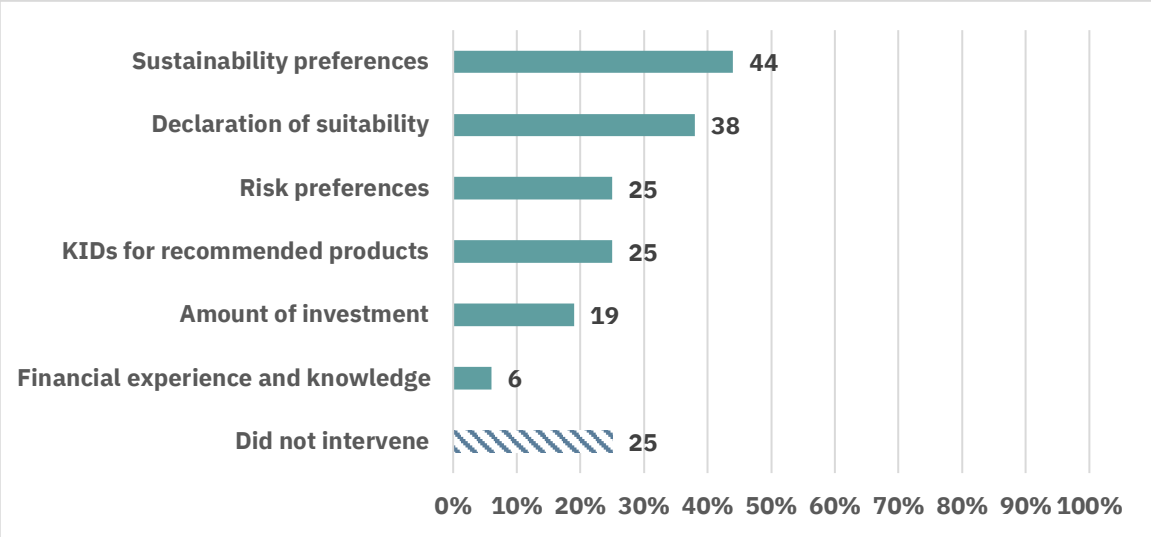

Figure 3. Share of intervention aspects during consultations (N = 16)

3.3. Advisor knowledge, conduct and implications

Overall, mystery shoppers perceived advisors' competence on sustainability topics as below average. Figure 4 illustrates the average ratings provided by mystery shoppers across various dimensions of advisor performance during consultations. All impressions were measured on a scale from 1 to 5, where 1 indicated strong disagreement or a negative rating, 3 was neutral, and 5 signified strong agreement or a positive rating.

To begin with, mystery shoppers rated the statement "the advisor made a positive impression" at an average of 2,4, below the neutral midpoint. Notably, no shopper gave a strongly positive rating on this measure. In terms of sustainability-specific competence, the average ratings were similarly low: 2,8 for advisors' knowledge in the area of sustainability, 2,6 for their preparedness to discuss sustainability topics, and 2,5 for familiarity with relevant sustainability-related information materials.

In contrast, advisors were perceived far more positively when it came to general knowledge. As shown in Figure 4, knowledge of the bank's services and products received the highest rating (4,7), followed by general financial knowledge (4,2). Other general aspects, such as willingness to provide requested information (3,9) and ability to answer product-related questions (3,6), also scored relatively well. All sustainability-related

categories, however, ranked at the bottom of the list, highlighting a persistent knowledge and communication gap in this area.

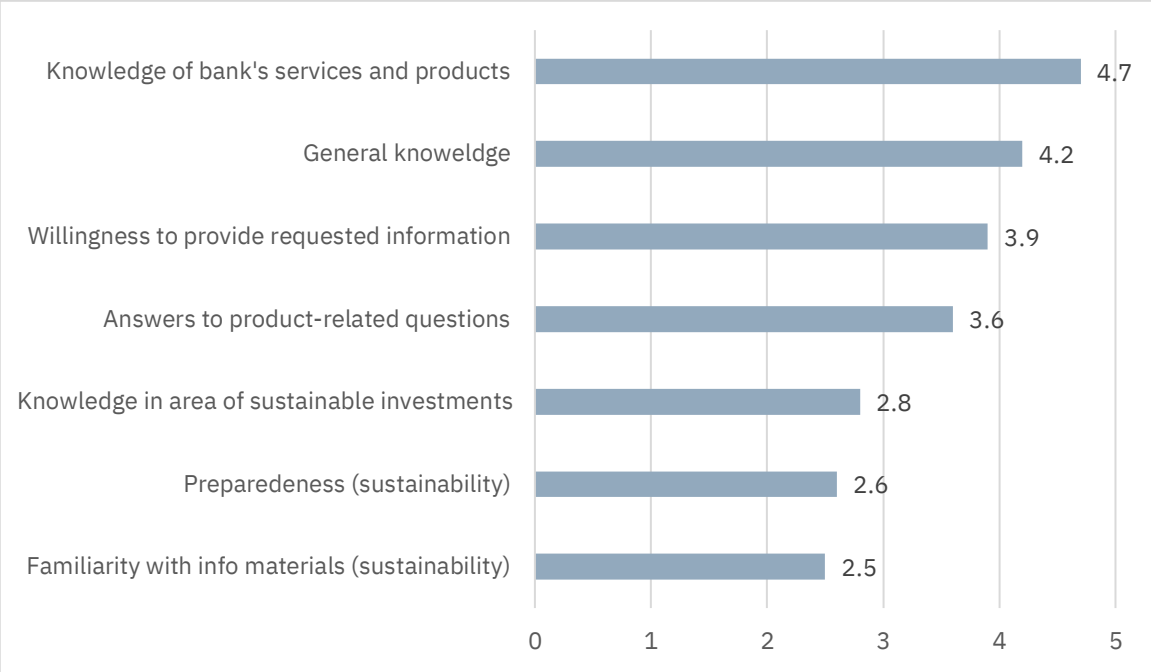

Figure 4. Average ratings of aspects about advisors (N = 16)

Interestingly, when asked whether advisors encouraged them to invest sustainably or appeared motivated when discussing sustainability, shoppers gave especially low ratings, 1,4 and 1,6, respectively. There were also some cases where advisors tried to talk mystery shoppers out of their sustainability preference. And in some cases, shoppers were told that banks in Estonia don't specifically offer consultations on green investments. This reinforces a broader observation: that advisors in Estonia may not be accustomed to engaging with sustainability-oriented clients, and that such consultations are not yet standard practice, which is not in compliance with the regulation. These results align with the "attitude–behaviour gap" identified in the demand-side report of this study[31], where interest in sustainable finance does not consistently translate into meaningful advisor engagement.

When asked whether advisors could address concerns about greenwashing, the average rating was just 1,9, suggesting a lack of preparedness or confidence in navigating one of the most pressing concerns in sustainable finance. However, advisors performed somewhat better when explaining the content of recommended products, which scored an average of 3,6. Still, some shoppers reported confusion, especially when funds marketed as sustainable included holdings in companies that did not intuitively appear

[31] Kirill Jurkov, Tarmo Kalvet, Marek Tiits, Maris Pihelgas. 2025. Understanding the Demand for Retail Sustainable Finance in Estonia. Tartu: Institute of Baltic Studies.

environmentally or socially responsible (e.g., certain tech or retail firms). This issue was also reflected in low ratings for advisors' ability to explain the real-world impact of the products they recommended.

Despite these perceived shortcomings in sustainability-related areas, mystery shoppers reported high satisfaction with the overall consultation experience. Advisors were generally described as clear communicators, trustworthy, polite, and professional, traits that were reflected in average ratings well above 4,0 for interpersonal conduct. The most notable gap emerged in the satisfaction scores: while overall satisfaction with the advisory session averaged 4,0, satisfaction specifically with the sustainability-related portion of the advice was much lower, at just 1,8.

These findings suggest that while current market demand in Estonia remains primarily focused on financial returns, this does not remove advisors' obligation to ask about clients' sustainability preferences. Under regulatory expectations, such questioning is a required step, not merely an optional response to perceived demand, and is intended to help increase the salience of sustainability considerations over time. In practice, however, limited engagement with these topics may indicate that the mechanism is not yet being fully leveraged to shift investment culture. The current lack of emphasis on sustainability in advisory sessions therefore risks reinforcing the prevailing status quo rather than gradually reshaping it.

3.4. Product recommendations and sustainability alignment

The mystery shopping results reveal that product recommendations were largely unaffected by the sustainability preferences expressed by clients. Across the consultations, advisors predominantly promoted funds offered by their own institutions or those featured on the bank's public website. This pattern suggests a structural bias toward in-house products, driven more by institutional constraints and limited product availability than by tailored suitability assessment. Crucially, this approach does not align with regulatory requirements: where a client's stated sustainability preferences cannot be met, advisors are expected to inform the client of this and give them the opportunity to adjust those preferences, rather than proceeding as if they were irrelevant.

In most cases, consultations did not result in a specific recommendation tied to an individual fund. Several advisors stated explicitly that they were not permitted to recommend specific products without a formal agreement with a portfolio manager. As for those cases, where the mystery shopper was not a client of a bank, they recounted, *"The adviser explained that such advice is generally not provided to people who are not clients of the bank."* In other cases, advisors relied on a pre-set list of options generated automatically by internal advisory systems, with little or no flexibility to modify the outcome based on client preferences:

"She had to play with the cards that the system provided... she didn't indicate she could actually change or would like to change the products the system recommended."

Despite these limitations, shoppers were often shown product lists or fund categories, which allowed for a partial assessment of alignment with sustainability preferences. Notably, none of the reviewed consultations included products aligned with the EU Taxonomy. This is consistent with findings from the environmental impact claims analysis, where no Taxonomy-aligned retail funds were found to be marketed in Estonia. One advisor explicitly downplayed the relevance of preferences, saying:

"All our bank's funds are sustainable; you don't need to choose a specific preference."

In contrast, SFDR classifications showed more consistent alignment. All six observed product suggestions were labelled as either Article 8 or Article 9. However, this alignment appeared to stem from the general characteristics of the product shelf rather than an advisor-driven selection based on client input. Similarly, in three out of four cases where Principal Adverse Impact (PAI) preferences were declared, shoppers were directed to a product or list that acknowledged these criteria. Yet the substantiation of how PAIs were addressed remained limited.

Shoppers frequently reported that sustainability considerations were treated as secondary to financial performance. One shopper noted, *"The advisor was more interested in showing me the funds with the highest return potential rather than the best sustainability-wise."* Another remarked that while sustainability themes were mentioned, *"the bank does not specifically offer consultations on green investments."* In several cases, even when clients explicitly expressed preferences for Taxonomy-aligned or PAI-inclusive products, the advisors suggested that these preferences were difficult or impossible to fulfil within the bank's current offering.

An additional structural feature of the Estonian market is the high reliance on pension funds, which were frequently suggested by advisors regardless of the client's stated preferences. These products benefit from favourable tax treatment and are widely used across the population. In some cases, the only product flagged as sustainable was a pension fund:

"Only sustainable investment that is possible is pension fund LHV Roheline Fond (100% sustainable investments)."

Overall, the findings point to a consistent pattern: while formal misrepresentation of preferences was rare, sustainability considerations had little discernible influence on the final product recommendations. This was largely due to institutional limitations, rigid advisory systems, and a lack of suitable products on offer. In many cases, clients were

redirected to self-service digital tools or referred to portfolio managers for more tailored advice. As one shopper summarised:

"Advisor said this bank has a separate service called a portfolio manager… that's why his explanations weren't that thorough, and I had to direct him a lot to sustainable investment topics."

These comments point to a broader observation already noted in earlier sections: the supply of sustainability-aligned retail products in Estonia is limited, and this constraint directly shapes the advisory process, regardless of client interest or regulatory expectations.

Overall patterns of the analysis highlight a missed opportunity to activate the intended "demand creation" mechanism built into the regulatory framework. The mandatory assessment of sustainability preferences is designed not only to match clients with existing products, but also to generate clear market signals about unmet demand. Over time, these signals are meant to incentivise institutions to expand their range of sustainable products. In the Estonian market, however, advisors' failure to consistently ask about preferences, explain them clearly, or document unmet needs means that these signals are not being generated. Instead, the absence of recorded demand reinforces the perception that sustainable products are niche, removing any commercial incentive for providers to diversify their offering. This undermines both client choice and the long-term growth of the sustainable investment market.[32]

[32] Sustainable Finance Observatory. 2023. Assessing Client Sustainability Preferences… Lost in the Maze? https://sustainablefinanceobservatory.org/wp-content/uploads/2023/02/Assessing-client-sustainability-preferences-%E2%80%A6-lost-in-the-maze_FINAL.pdf

4. DISCUSSION

The findings presented in this report provide a clear picture of the current state of Estonia's sustainable retail investment market. While sustainable finance has become more visible in recent years, the evidence indicates that its implementation remains limited. Marketing materials frequently contain sustainability claims that are vague or misleading, the underlying design of investment products rarely incorporates mechanisms to generate measurable real-world outcomes, and financial advisors do not consistently integrate client sustainability preferences into their recommendations. Taken together, these results point to a gap between the promise of sustainable finance and its actual delivery. The discussion that follows situates these findings within the broader European context, explores their implications for regulation, supervision, and investor trust, and identifies opportunities to strengthen both the credibility and effectiveness of sustainable finance in Estonia.

1. Consistency across methods: a gap between ambition and delivery

The three strands of analysis – environmental impact claims, impact potential assessment, and mystery shopping – converge on a common conclusion.

- **Impact claims analysis** showed that a significant proportion of funds, particularly those marketed as Article 9, made misleading assertions about environmental outcomes, often conflating company performance with investor impact.
- **Impact Potential Assessment (IPAF)** found that five out of six assessed products scored at the lowest level of impact potential, with only one reaching a weak (E) rating. The vast majority lacked robust investor-contribution mechanisms.
- **Mystery shopping** demonstrated that sustainability preferences were rarely elicited proactively and, when expressed by clients, seldom influenced the final product recommendations.

The convergence of these findings points to a market where sustainability is increasingly invoked but not substantively operationalised. These findings are also reinforced by the thematic literature. For example, the report by Influence Map which was also summarised in the time magazine showed that multiple funds included holdings in fossil fuel

companies, even when marketed as “fossil fuel screened” or “reserves free”.[33,34] The list included many significant portfolio managers.

Additionally, Montgomery et al. (2023) show that both news coverage and academic research on greenwashing have increased substantially in recent years, and they argue that greenwashing itself is evolving in its forms and complexity.

Earlier manifestations of greenwashing were largely limited to exaggerated claims about present practices – for example, firms overstating environmental performance or using symbolic terminology in marketing. More recent scholarship, however, identifies a shift towards what has been termed *“Greenwashing 3.0”* or *futurewashing*: the use of long-term sustainability narratives, such as net-zero commitments or impact-oriented branding, which are difficult to verify and rarely accompanied by concrete short-term milestones. In this form, sustainability becomes framed as an aspirational journey rather than a measurable present reality.[35]

The results of this study illustrate how these global patterns materialise in the Estonian retail investment market. The analysis of environmental impact claims revealed that funds frequently invoke high-level goals, such as alignment with the Paris Agreement or contribution to the UN Sustainable Development Goals, without providing evidence of causal mechanisms. Similarly, the Impact Potential Assessment found that even products marketed under an “impact” label scored at the lowest levels of impact potential, relying on broad narratives rather than structured investor-contribution mechanisms. Finally, mystery shopping confirmed that advisors seldom probe or operationalise client sustainability preferences, thereby reinforcing the dominance of aspirational language over substantive implementation.

2. Structural challenges in the Estonian market

Estonia’s specific market characteristics intensify these challenges.

- **Limited product pool:** Retail investors have access to only a small number of sustainable funds compared to larger EU member states. With just 62 Article 8 and 9 funds genuinely available, the impact of misleading claims is disproportionately high.

[33] Influence Map. 2021. Climate Funds: Are They Paris Aligned? https://influencemap.org/report/Climate-Funds-Are-They-Paris-Aligned-3eb8334726794984708 4306dae01c7b0
[34] The Time. 2021. Thinking of Investing in a Green Fund? Many Don’t Live Up to Their Promises, a New Report Claims, https://time.com/6095472/green-esg-investment-funds-greenwashing/
[35] A. Wren Montgomery, Thomas P. Lyon, and Julian Barg. 2023. No End in Sight? A Greenwash Review and Research Agenda. *Organization & Environment* 37(2), 221–256. DOI: 10.1177/10860266231168905

- **Institutional concentration:** Banks predominantly recommend in-house products and rely heavily on pension funds, narrowing the space for genuine product differentiation.
- **Low advisory uptake:** Investment consultations are not widely practiced, and where they do occur, advisors often defer to standardised systems or portfolio managers, leaving little room for meaningful integration of sustainability preferences.

These constraints are magnified by the small scale of Estonia's capital market. Investment fund assets account for only around 5% of GDP, far below levels in larger EU states such as Sweden (105%) or Finland (47%).[36] In practice, this means that even a limited number of misleading claims or weakly designed products can shape the entire retail market landscape, leaving investors with few credible alternatives.

3. Regulatory implications: supervision gaps and credibility risks

The findings highlight shortcomings in the implementation of key EU regulatory frameworks.

- **Unfair Commercial Practices Directive (UCPD):** Misleading claims appear even in formal documents such as KIIDs and SFDR disclosures, showing that legal templates do not guarantee compliance.
- **MiFID II suitability requirements:** Advisors do not consistently elicit, document, or act upon client sustainability preferences, undermining the intended mechanism whereby unmet demand signals the need for more suitable products.
- **SFDR categorisation:** Article 9 products, designed to represent the highest sustainability ambition, were disproportionately responsible for false claims, raising questions about the credibility of EU classification standards and increasing risks of greenwashing.

Without stronger supervisory enforcement, both investor protection and the broader objectives of the EU Sustainable Finance Action Plan risk being undermined. Recent supervisory evidence confirms these risks. The SFO found that Article 9 funds contained a disproportionately larger amount of false or generic environmental claims, none of which were substantiated under UCPD standards[37]. ESMA's *Final Report on Greenwashing* likewise warns that misleading claims, whether in product disclosures or advisory practice,

[36] World Bank. Mutual Fund Assets to GDP for United States [DDDI07USA156NWDB]. Retrieved from FRED, Federal Reserve Bank of St. Louis, https://fred.stlouisfed.org/searchresults/?st=mutual+fund+assets+to+gdp&pageID=1

[37] Sustainable Finance Observatory. 2023. *Market Review of Environmental Impact Claims of Retail Investment Funds in Europe: Are Investment Products Living Up to Their Green Promises?* https://sustainablefinanceobservatory.org/resource/market-review-of-environmental-impact-claims-of-retail-investment-funds-in-europe/

undermine investor protection and require stronger, harmonised supervision (ESMA 2024). Together, these findings highlight that while EU frameworks are in place, inconsistent enforcement leaves credibility gaps that risk eroding trust in sustainable finance.

4. Estonia in the European context

Although Estonia's structural features magnify the observed shortcomings, the overall patterns are consistent with EU-wide trends. Across Europe, analyses have shown that sustainability claims are often vague, impact potential scores remain low, and advisors are not yet systematically integrating sustainability into client interactions. Estonia can therefore be understood both as part of a wider European problem and as a particularly clear example of how these weaknesses manifest in smaller, less developed retail investment markets.

The Estonian case underscores the importance of strengthening the supply side of sustainable finance. Labels, regulatory categories, and investor demand alone are insufficient to ensure that financial products contribute meaningfully to environmental or social objectives. Unless product structures, advisory practices, and supervisory frameworks are designed to deliver measurable outcomes, sustainable finance risks being reduced to branding. Addressing these issues is therefore central not only to investor protection but also to the credibility of the EU's sustainable finance agenda.

In conclusion, the Estonian case illustrates both the opportunities and the limitations of sustainable finance in a small but interconnected European market. On the one hand, it reflects broader EU-wide patterns of over-reliance on labels, prevalence of vague claims, and limited integration of sustainability into advisory processes. On the other hand, Estonia's narrow product pool, concentration of providers, and low advisory culture make these challenges more visible and more pressing. Addressing them will require coordinated action: effective supervision and enforcement at the national level, stronger product design and advisor training within institutions, and targeted reforms of EU-level frameworks to raise the credibility of sustainability claims. Without such steps, sustainable finance risks remaining largely aspirational. With them, Estonia has the potential not only to close its domestic gaps but also to contribute to the development of a more credible, transparent, and impactful European sustainable finance landscape.

CONCLUSION

This study examined the supply side of Estonia's sustainable retail investment market through three complementary perspectives: the credibility of environmental impact claims, the capacity of investment products to generate real-world outcomes, and the integration of sustainability preferences into financial advice. Across all three dimensions, the findings reveal persistent gaps between regulatory expectations, investor intentions, and current market practice.

The analysis of environmental impact claims showed that a significant share of funds marketed as sustainable rely on vague or misleading statements, including false attributions of investor impact. The Impact Potential Assessment confirmed that most products lack robust mechanisms to deliver measurable environmental benefits, with nearly all scoring at the lowest levels of impact potential. Finally, mystery shopping visits demonstrated that financial advisors rarely elicit or act upon sustainability preferences in a systematic manner, leaving clients with limited or no opportunity to align their investments with sustainability objectives.

Taken together, these results point to three overarching challenges. First, sustainability claims are not consistently substantiated, creating a risk of greenwashing. Second, product design and market structures do not yet support meaningful investor contributions to environmental outcomes. Third, advisory processes are not effectively operationalising EU requirements, limiting the role of client preferences in shaping market supply.

While these challenges mirror patterns observed across Europe, they are amplified in Estonia by the small size of the retail fund market, limited product diversity, and low uptake of investment advice. In this context, every misleading claim or weak product carries disproportionate weight, and opportunities to develop investor demand for sustainability are easily lost.

At the same time, the findings also highlight clear avenues for progress. Strengthened supervisory enforcement of the Unfair Commercial Practices Directive (UCPD), MiFID II suitability rules, and Sustainable Finance Disclosure Regulation (SFDR) is essential to restore credibility. Financial institutions can improve the quality of offerings through more rigorous product design, transparent reporting of outcomes, and enhanced advisor training. Policymakers, at both national and EU level, can widen product choice, harmonise regulatory frameworks, and promote mechanisms that link financing more directly to environmental and social performance.

Ultimately, the Estonian case illustrates that sustainable finance cannot achieve its potential through labels and marketing alone. Real progress requires alignment between regulatory frameworks, credible product structures, and effective distribution practices. Addressing the current shortcomings will be essential not only to protect retail investors in Estonia but also to strengthen the integrity of the European sustainable finance agenda as a whole.

ANNEXES

Annex 1. Mystery shoppers' profiles

Gender	Age	Investment amount	Risk profile	Sustainability preference
Woman	26	High (€100,000)	Low	EU Taxonomy
Woman	26	Medium (€20,000)	High	SFDR
Man	25	High (€100,000)	Low	PAI
Man	25	High (€100,000)	High	SFDR
Man	25	Medium (€20,000)	Medium	SFDR
Man	25	Medium (€20,000)	Medium	PAI
Man	42	Medium (€20,000)	High	SFDR
Man	42	Medium (€20,000)	Low	SFDR
Woman	34	Medium (€20,000)	Low	PAI
Woman	33	High (€100,000)	Medium	No preference
Woman	33	High (€100,000)	Medium	EU Taxonomy
Woman	33	High (€100,000)	Medium	EU Taxonomy
Woman	33	Medium (€20,000)	Medium	EU Taxonomy
Woman	46	Medium (€20,000)	Low	No preference
Woman	29	High (€100,000)	High	EU Taxonomy
Woman	29	Medium (€20,000)	Medium	SFDR