Roadmap for Sustainable Finance in Sri Lanka

Central Bank of Sri Lanka (CBSL)

April 2019
Acknowledgement

United Nations Development Programme (UNDP) provided funding support to the development of the Roadmap through the Biodiversity Finance Initiative (BIOFIN).

The CBSL would also like to thank the International Finance Corporation (IFC) for technical support and thank stakeholders for contributions to consultation process. These stakeholders include (in alphabetical order): The Finance Houses Association of Sri Lanka (FHA), The Insurance Regulatory Commission of Sri Lanka (IRCSL), Securities and Exchange Commission of Sri Lanka (SEC) and Sri Lanka Banks’ Association (Guarantee) Ltd. (SLBA).
# Table of Contents

Part 1 Background ................................................................. 1  
  1.1 Global Context .............................................................. 1  
  1.2 National Context ............................................................ 2  
  1.3 Existing Market and Policy Actions in the Financial Sector .......... 3  
Part 2 Objectives ...................................................................... 5  
Part 3 Core Pillars ................................................................. 6  
  3.1 Financing VISION 2030 ..................................................... 6  
  3.2 ESG Integration into Financial Market ................................ 10  
  3.3 Financial Inclusion ............................................................ 13  
  3.4 Capacity Building ............................................................. 14  
  3.5 International Cooperation ................................................ 17  
  3.6 Measurement and Reporting ............................................. 17  
Part 4 Proposed Action Plan .................................................... 20  
References ............................................................................... 25
## Abbreviations and Acronyms

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>ABS</td>
<td>Asset Backed Securities</td>
</tr>
<tr>
<td>BIOFIN</td>
<td>The Biodiversity Finance Initiative</td>
</tr>
<tr>
<td>CBI</td>
<td>Climate Bonds Initiative</td>
</tr>
<tr>
<td>CBSL</td>
<td>Central Bank of Sri Lanka</td>
</tr>
<tr>
<td>CSE</td>
<td>Colombo Stock Exchange</td>
</tr>
<tr>
<td>ESG</td>
<td>Environmental Social and Governance</td>
</tr>
<tr>
<td>FHA</td>
<td>The Finance Houses Association of Sri Lanka</td>
</tr>
<tr>
<td>FI</td>
<td>Financial Institution</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>GRI</td>
<td>Global Reporting Initiative</td>
</tr>
<tr>
<td>ICMA</td>
<td>International Capital Market Association</td>
</tr>
<tr>
<td>IFC</td>
<td>International Finance Corporation</td>
</tr>
<tr>
<td>IPCC</td>
<td>The Intergovernmental Panel on Climate Change</td>
</tr>
<tr>
<td>IRCSL</td>
<td>The Insurance Regulatory Commission of Sri Lanka</td>
</tr>
<tr>
<td>KPI</td>
<td>Key Performance Indicator</td>
</tr>
<tr>
<td>MSME</td>
<td>Micro, Small and Medium Enterprises</td>
</tr>
<tr>
<td>NBFI</td>
<td>Non-Bank Financial Institution</td>
</tr>
<tr>
<td>PAED</td>
<td>Publicly Available Environmental Data</td>
</tr>
<tr>
<td>PE</td>
<td>Private Equity</td>
</tr>
<tr>
<td>PRB</td>
<td>Principles for Responsible Banking</td>
</tr>
<tr>
<td>PRI</td>
<td>Principles for Responsible Investment</td>
</tr>
<tr>
<td>PSI</td>
<td>Principles for Sustainable Insurance</td>
</tr>
<tr>
<td>FC4S</td>
<td>International Network of Financial Centers for Sustainability</td>
</tr>
<tr>
<td>SBI</td>
<td>Sustainable Banking Initiative</td>
</tr>
<tr>
<td>SBN</td>
<td>Sustainable Banking Network</td>
</tr>
<tr>
<td>SDGs</td>
<td>Sustainable Development Goals</td>
</tr>
<tr>
<td>SEC</td>
<td>Securities and Exchange Commission of Sri Lanka</td>
</tr>
<tr>
<td>SLBA</td>
<td>The Sri Lanka Banks’ Association (Guarantee) Ltd.</td>
</tr>
<tr>
<td>SSE</td>
<td>Sustainable Stock Exchange</td>
</tr>
<tr>
<td>TCFD</td>
<td>Task Force on Climate-related Financial Disclosures</td>
</tr>
<tr>
<td>UN</td>
<td>United Nations</td>
</tr>
<tr>
<td>UNDP</td>
<td>United Nations Development Programme</td>
</tr>
<tr>
<td>VC</td>
<td>Venture Capital</td>
</tr>
</tbody>
</table>
Part 1 Background

1.1 Global Context

As consequences of unsustainable economic and population growth, the world is facing challenges including those related to environmental degradation, climate change, poverty and inequality. In 2015, the United Nations (UN) introduced the Sustainable Development Goals (SDGs) to address these challenges and to call for action by all countries to promote prosperity while protecting the planet. The recently released Special Report of the Intergovernmental Panel on Climate Change (IPCC)\(^1\) further highlighted the urgency of meeting the goals set by the Paris Agreement and limiting global warming to 1.5 degrees Celsius.

Implementing the SDGs and the Paris Agreement on climate change requires a substantial mobilization of public and private finance towards sustainability. International initiatives, principles and standards such as the Sustainable Banking Network (SBN), the Equator Principles, International Finance Corporation (IFC) Environmental and Social Performance Standards and World Bank Environmental, Health and Safety Guidelines have been launched to support sustainable finance transition. Countries also have developed national sustainable finance policies and principles tailored to local context. Among SBN member countries, 17 have launched national policies, guidelines, principles or roadmaps by far.

As illustrated in the UN Environment and World Bank Group’s Roadmap for a Sustainable Financial System (Figure 1), sustainable finance takes a broad approach concerning environmental, social economic and other SDGs aspects, supporting investment across a broad set of sectors required to build an inclusive, economically, socially, and environmentally sustainable world.

---

\(^1\) IPCC, 2018. Global Warming of 1.5 ºC.
1.2 National Context

Sri Lanka is facing increasing environmental and climate challenges. Frequent natural disasters, deforestation and forest degradation, degradation of coastal and marine ecosystems, climate change and extreme weather, air and water pollution and loss of biodiversity hinder its sustainable economic growth. Sri Lanka may face a 1.2 percent loss of annual GDP by 2050 if measures are not taken to address climate change.\(^2\) Sri Lanka is also one of the biodiversity hotspots in the world and it is estimated that additional investment of Sri Lankan Rupees 30 billion within next five years is needed to achieve national biodiversity targets and to avoid future expenses related to biodiversity restoration and management.\(^3\)

Sri Lanka is the first country to appoint a Parliamentary Select Committee on Sustainable Development. It established the Sustainable Development Council to ensure that the country’s growth is sustainable. The Sustainable Development Council...

---


\(^3\) Assessment conducted by UNDP Biodiversity Financial Initiative (BIOFIN).
Roadmap for Sustainable Finance in Sri Lanka

Act No. 19 of 2017 enacted by the Parliament provides the legal framework and the national policy for implementing the SDGs. Additionally, the Sustainable Sri Lanka Vision and Strategic Path 2030 identifies the need of a balanced, inclusive and green growth path to facilitate a transition from “Conventional Sri Lanka 2018” to “Sustainable Sri Lanka 2030”.

During the Sustainable Finance Workshop held by the Central Bank of Sri Lanka (CBSL) and IFC/SBN in 2017, His Excellency President Maithripala Sirisena stressed the important role that the financial sector can play to help Sri Lanka tackle the most urgent development challenges—from environmental conservation to poverty—and to help finance the SDGs. His presence demonstrated a strong political will to advance sustainable finance as a long-term priority for the country. Following the workshop, the CBSL initiated the process of developing a Roadmap for Sustainable Finance in Sri Lanka to facilitate and promote sustainable finance practices in consultation with relevant government agencies, the industry and a wide range of financial sector stakeholders.

The IFC provided technical support, while the UNDP BIOFIN provided the financial support to the development of this Roadmap.

1.3 Existing Market and Policy Actions in the Financial Sector

In Sri Lanka, voluntary, industry-led initiatives have been implemented to promote sustainable finance. Early in 2015, the Sri Lanka Banks’ Association (SLBA) launched the Sri Lanka Sustainable Banking Initiative (SL-SBI) with the aim to jointly agree upon minimal standards or principles for integrating environmental and social considerations into operations and to implement these standards among the signatory banks. Under the Initiative, SLBA issued voluntary Sustainable Banking Principles, setting a general framework on how the Sri Lankan banking sector can conduct business to facilitate more sustainable economic growth locally. Eighteen banks have signed up, committing to mainstream environmental and social consideration into operation.

In the same year, the Colombo Stock Exchange (CSE) joined the UN Sustainable Stock Exchanges (SSE) Initiative. In 2018, the CSE provided guidance to its
market on sustainability reporting by launching a publication titled “Communicating Sustainability”.

In parallel, financial regulators started to take the lead through policy-based initiatives for sustainable finance. In 2016, the CBSL joined the IFC-supported SBN, which consists of central banks, banking regulators and banking associations from 36 member countries, representing 85 percent of banking assets in emerging markets. As an SBN member, the CBSL announced in the “Roadmap 2017-Monetary and Financial Sector Policies for 2017 and Beyond” that it would focus on sustainable finance practices to help financial institutions effectively manage environmental and social risks in the project they finance and support businesses that are greener, climate friendly and socially inclusive, promoting sustainable finance in Sri Lanka. The CBSL has appointed a steering committee to facilitate developing the Sustainable Finance Roadmap for the financial sector in Sri Lanka through an inclusive and multi-stakeholder process.
Part 2 Objectives

This Roadmap sets out plans to develop sustainable finance in Sri Lanka, aiming to provide guidance and support to financial institutions to effectively managing environmental, social and governance (ESG) risks associated with projects they finance and increase support to businesses that are greener, climate-friendly and socially inclusive.

The specific objectives of the Roadmap are to:

(1) Bring policy cohesiveness across ministries, the Central Bank, other financial regulators, and financial sector participants and address specific ESG issues.

(2) Enhance resilience of financial institutions and enable them to grow and develop in a sustainable manner through effective ESG risk management.

(3) Facilitate green/climate finance products and services innovation to mobilize predominantly private capital for sustainable investment, making available the financial resources required for Sri Lanka to achieve the SDGs.

While focusing on banks and non-bank financial institutions (NBFIs) regulated by the CBSL, the Roadmap reflects commitment and aspirations of the entire financial market toward sustainability, including banking, capital market and insurance industry. Other financial institutions can refer to this Roadmap and develop strategic activities that fit their businesses.

The Roadmap shall be reviewed and adjusted in due course to be in line with market developments.
Part 3 Core Pillars

The Roadmap proposes a series of strategic activities to implement sustainable finance in Sri Lanka. These activities revolve around six focus areas:

- Financing VISION 2030
- ESG Integration into Financial Market
- Financial Inclusion
- Capacity Building
- International Cooperation
- Measurement and Reporting

3.1 Financing VISION 2030

The Sustainable Sri Lanka Vision and Strategies 2030 sets out short-, medium- and long-term economic, social and environmental goals. Achieving these goals to transit towards a green, inclusive and balanced economy in Sri Lanka requires large investments from the financial sector. The Sustainable Sri Lanka Vision and Strategies 2030 identifies the investment needs in eight sectors: agriculture and food, education, energy, health, marine resources, transport, urban development and physical planning, and water. There is a need to facilitate financial institutions in developing innovative sustainable finance products and services to implement the country's sustainable development agenda, which at the same time reveals new business opportunities for financial institutions and creates business drivers for sustainable finance.

3.1.1 Sustainable/green loan

The banking sector plays a critical role in Sri Lanka's financial system and is regarded with high capacity to mobilize financial resources to support sustainable development. Activities that could further the greening of the banking sector include:
For regulators:

- Develop specific sustainable loan guidelines or standards that guide sustainable loans.
- Encourage banks to develop specific sustainable loan products and sustainable saving products dedicated to financing sustainable/green projects.
- Introduce incentive mechanism to promote sustainable loan and saving, such as differentiated reserve requirements, differentiated risk weighting, interest subsidies, tax preferences, etc.

For banks:

- Innovate loan/saving products for energy efficiency, green building, green urban infrastructure, water saving and efficiency, and climate-smart agriculture through project loans, corporate loans, green mortgage loans, etc.
- Develop sustainable saving products to mobilize small savings for sustainable activities and at the same time raise the public’s awareness on sustainable finance.

3.1.2 Sustainable/green leasing

Leasing is an effective way to enable sustainable businesses by reducing upfront costs and to some extent encourages the design and production of sustainable products. Sustainable leasing could focus on funding sustainable projects and funding in a sustainable way.

For regulators:

- Encourage companies engaged in leasing business to develop sustainable/green leasing framework, guidance and operational tools that guide sustainable leasing. Such guidance could cover funding on residential, industrial and transportation energy efficiency, supporting the development of green building and the application of energy-efficient facilities and vehicles.
For Financial Institutions engaged in leasing business:

- Support green and socially inclusive projects through leasing business.
- Explore a sustainable model of leasing that could extend the lifecycle of equipment, machinery and appliances to promote a circular economy and sustainability.

3.1.3 Sustainable/green bond

The global green bond market has grown rapidly in the past years and provides investors a new way to meet green investment goals.

For regulators and stock exchange:

- Adopt international standards on sustainable bonds and develop necessary domestic guidance and operational tools to enable sustainable bond issuance, including taxonomy, methods to quantify the sustainable impacts of bonds and guidance on reporting. Such guidance and tools could cover sustainable financial bonds, sustainable corporate bonds, sustainable Asset Backed Securities (ABS) and other financial products. Such guidance and tools should take into account both local sustainable development needs and international standards and principles such as those by Climate Bonds Initiative (CBI) and International Capital Market Association (ICMA).
- Encourage the adoption of external verification, which could benefit green bond issuance by increasing investor confidence in the environmental credentials of the market.
- Explore potential incentive schemes to encourage the issuance of sustainable bonds. Potential sustainable bond issuers would face the additional expense and administrative burden brought by external verification, managing and monitoring the proceeds, and meeting reporting requirements. Incentives could help lower initial
hurdles for new issuers and absorb additional costs of an environmentally robust issuance.

**For financial institutions:**

- Develop sustainable bond products.
- Support the issuance of sustainable bonds by acting as underwriters.
- Consider allocating a portion of savings or funding to invest in sustainable bonds.

### 3.1.4 Sustainable/green public equity

**For regulators and stock exchange:**

- Encourage managed funds to direct savings and funding towards environmentally friendly and socially inclusive companies.
- Support the development of sustainability-related indices and the establishment of sustainable public equity funds to attract both public and private capital to green industries and to raise investors’ awareness on sustainability.

### 3.1.5 Other sustainable/green products

**For regulators:**

- Support and encourage industry players towards innovation on climate and disaster insurance products, specially focusing on the sectors vulnerable to such risks, through developing regulatory guidance and tools where feasible.
- Encourage the establishment of green funds leveraging private capital and forming public-private partnerships towards sustainability. These funds could be sustainable private equity (PE) funds and sustainable venture capital (VC) funds which are uniquely suited to financing sustainable projects that are risky,
innovative, relatively small and at the early stage of the project cycle.

For financial institutions:

- Explore specialized investment instruments to mobilize savings/assets and catalyze them towards sustainable investments.

For insurance companies:

- Explore insurance solutions for environmental risks and social inclusion. These could include climate and disaster insurance, crop insurance and home insurance to protect farmers and homeowners especially against the loss of crops and damage to property due to natural disasters. Pollution liability insurance could also be developed to better manage environmental risks and reduce losses from environmental pollution.

3.2 ESG Integration into Financial Market

Financial institutions face technical barriers when implementing sustainable finance. It is critical to provide operational tools to strengthen ESG disclosure and mainstream ESG issues throughout financial institutions’ risk management and decision-making processes.

3.2.1 ESG disclosure

ESG data act as a fundamental of sustainable finance. Information asymmetry is one of the main obstacles to develop and implement a sustainable financial system. Limited disclosure from companies and regulators in a comparable format makes it difficult for financial institutions to assess the materiality of ESG risks involved in their investment and product design.
For regulators:

- Improve availability and accessibility of publicly available environmental data (PAED)\(^4\) from non-corporate entities, such as government agencies, international organizations and non-governmental organizations. Information technologies such as online database and fintech can be applied to help improve availability and accessibility of such data.

- Cooperate with other government departments to improve corporate-level ESG disclosure by introducing ESG disclosure guidelines. A list of key indicators that need to be disclosed can be developed. Mandatory and/or voluntary reporting requirements can be identified.

- Require financial institutions to disclose their sustainable finance strategies and ESG data at corporate level or asset level on regular basis, which could in turn encourage their clients to improve ESG management and disclosure quality.

For financial institutions:

- Disclose both positive and negative environmental and social impacts generated through investment; disclose sustainability policies and programs implemented within the organization. Internationally recognized reporting frameworks, such as Global Reporting Initiative (GRI) and CDP reporting frameworks and Task Force on Climate-related Financial Disclosures (TCFD) recommendations could be references.

- Actively engage with clients on ESG disclosure and management issues.

---

\(^4\) According to the background paper *Improving the Availability and Usefulness of Publicly Available Environmental Data for Financial Analysis*, prepared for the G20 Green Finance Study Group in 2017, PEAD are defined as environmental data that are reported by non-corporate entities and that are useful for financial analysis. Examples of useful PEAD are: costs of air pollution, costs of land contamination, facility level emission data and corporate level environmental violation data, etc.
3.2.2 ESG risk management

ESG risk management is a system that helps financial institutions identify, assess and manage ESG related risks through financial institutions’ entire decision-making processes to enhance ESG integration. It includes governance for environmental and social risks, risk management practices as well as an enforcement mechanism.

For regulators:

- Develop specific guidance and operational tools that are in line with relevant national standards, regulations and international good practices for financial institutions to identify, assess and manage ESG risks in their portfolios as well as new business. Global standards and guidelines such as IFC Performance Standards can serve as a reference to assess ESG risk at the project level. Sector-specific ESG checklists can be developed in collaboration with other government departments, such as the Central Environmental Authority. Environmental stress testing, through which financial institutions can quantify and assess the potential impact of environmental issues on the performance of their businesses, can be applied at the asset level in the insurance and banking sectors.

- Encourage financial institutions to develop their own ESG risk management strategies and methods tailored to their specific needs within the overall risk management framework.

- Conduct country-level climate and disaster risk assessments for financial institutions.

For financial institutions:

- Incorporate ESG risk management to entire decision-making processes, including environmental and social policies, risk assessment, environmental and social covenant (in loan
agreements or other financial legal documents), project supervision and portfolio review, training, external communication and reporting. Risk assessment should consider full lifecycle and value chain of projects.

- Incorporate ESG to corporate governance especially by defining roles and responsibilities of the board and senior management with regard to ESG issue.

### 3.3 Financial Inclusion

Sri Lanka has identified financial inclusion as one of the priorities to achieve sustainable economic development. The country has made considerable progress in financial inclusion as there is high level of physical access to financial institutions with more branches opening up in rural areas. However, there remain challenges in increasing the financial literacy and financial awareness to enable clients to use financial services effectively and in improving payments and settlement systems. Limited or no access to the formal financial sector is still faced by micro, small and medium enterprises (MSMEs), low-income households, youth and women.

This pillar can be combined with Sri Lanka’s National Financial Inclusion Strategy, which is under development and aims to further enhance financial inclusion.

**For regulators:**

- Develop and implement the National Financial Inclusion Strategy coordinating efforts with major stakeholders from the government, financial industry and civil society.
- Introduce grants and risk-sharing facilities to support sustainable start-ups.
- Coordinate with government departments to provide technical assistance for green project development and investor pitches.
- Support fintech companies and the development of digital tools,
providing them with a regulatory sandbox to test fintech solutions towards financial inclusion.

**For banks and finance companies:**

- Develop more accessible, affordable and efficient financial products and services tailored for individual and communities that traditionally have had limited or no access to financial services. Explore the application of fintech and digital tools.
- Improve access to essential financial products and services.

**For insurance companies:**

- Develop accessible, affordable and effective insurance products tailored to low-income households and MSMEs to offer protection against climate change and natural disasters.

### 3.4 Capacity Building

Adequate expertise and capacity is needed by all, including the regulator, to ensure the implementation of sustainable finance. On the one hand, there is a need to facilitate technical training and capacity building among key stakeholders on ESG risk management and opportunities. On the other hand, new green products and technologies evolve quickly and expertise is needed to assess their viability.

#### 3.4.1 Capacity building for regulators

**For regulators:**

- Internal capacity development to strengthen regulators’ ability to develop relevant sustainable finance standards and to track and measure progress on sustainable finance.
3.4.2 Capacity building for financial institutions

For regulators:

- Support capacity-building activities for financial institutions to understand, identify, assess and manage ESG risks and opportunities.

- Support capacity-building activities for financial institutions to develop internal sustainable finance-related policies, manuals and procedures.

- Support knowledge-sharing activities among financial institutions to provide opportunities to exchange sustainable finance-related experience and learn from each other.

- Support capacity-building activities for financial institutions to take measures for the internal management in a more sustainable way, such as the introduction of green procurement and green buildings.

- Develop or support financial institutions to develop a pool of specialists that have expertise on environmental or social issues.

For financial institutions:

- Develop internal training programs to enhance capacity of identifying and quantifying the credit and market risks that may arise from environmental and social exposure.

- Hire professionals that have sustainable finance-related work experiences to help them gain a better understanding of ESG risks, develop tools that fit their existing procedures and processes to better-mitigate and -manage risks and to better-grasp green investment opportunities.

- Develop a pool of in-house or external specialists that have expertise on environmental or social issues.
3.4.3 Development of service providers

Professional service providers are important forces to facilitate the implementation of the Sustainable Finance Roadmap. They are more familiar with green technologies and environmental impact assessment, which usually hinder financial institutions from effectively implementing sustainable finance-related policies and/or guidelines.

For regulators:

- Encourage the development of domestic service providers in the field of sustainable finance.
- Encourage the collaboration with international and domestic sustainable finance service providers.
- Support training programs for service providers-related to sustainable finance. Such training programs could cover topics from sustainable project and/or sustainable finance product verification, ESG risk management to green technologies.

3.4.4 Development of professionals

For regulators:

- Introduce sustainable finance-related courses into university education and financial professional certificate programs. Equip the professionals with knowledge and skills on sustainable finance.

3.4.5 Public awareness-raising

For regulators:

- Develop and execute national awareness-raising programs to increase public understanding of environmentally friendly and socially inclusive finance so as to increase demand for sustainable finance products.
- Encourage media coverage on sustainable finance issues and facilitate professional sustainable finance media development.
For financial institutions:

- Support the implementation of sustainable finance awareness-raising programs at local level.

### 3.5 International Cooperation

Leveraging international partnerships could help accelerate collective progress of sustainable finance in Sri Lanka, in line with international practices and Sri Lanka’s development needs.

#### 3.5.1 Cooperation on knowledge and capacity

For regulators and financial institutions:

- Participate in and learn from international collaboration platforms such as Sustainable Banking Network (SBN), Principles for Responsible Banking (PRB), Principles for Responsible Investment (PRI), Principles for Sustainable Insurance (PSI), Sustainable Stock Exchanges (SSE) Initiative, International Network of Financial Centers for Sustainability (FC4S), etc.

- Expand and deepen the international cooperation and coordination on knowledge sharing and capacity building, such as through joint training, research projects and tools development.

#### 3.5.2 Cooperation on funding and resources

For regulators and financial institutions:

- Mobilize international, regional and local resources and funding to accelerate the implementation of the Roadmap in a coordinated and efficient manner.

### 3.6 Measurement and Reporting

Tools and mechanism to tag sustainable assets could help track the total public and private sustainable finance flows in the country, monitor and evaluate effectiveness of measures that have been introduced, and identify areas for market and regulatory improvement.
3.6.1 Taxonomy and statistics

Lack of clear definition of green and social project makes it difficult for banks, institutional investors and other key stakeholders to identify eligible sustainable projects and then allocate capital towards sustainable, and to measure sustainable stocks, flows and performance.

For regulators:

- Establish a clear and detailed taxonomy for sustainable activities to create a common language for all actors in the financial sector. Such taxonomy could be in the form of sector guidelines, catalogue and/or standard criteria for sustainable activities/projects, checklists and/or exclusion lists to guide green and social finance flows. Such taxonomy could refer to international examples and address the local sustainable development needs and priorities of the country.
- Introduce a statistics system to track sustainable finance flows and impacts.

3.6.2 For regulators to measure progress and impacts

A statistics system could help measure progress of the Sustainable Finance Roadmap and calculate environmental and social impacts to evaluate policy effectiveness, adjust and/or improve policies and achieve sustainability goals.

For regulators:

- Develop key performance indicators (KPIs) to capture both qualitative and quantitative data to measure the effectiveness of the implementation of the Roadmap.
- Require financial institutions to annually report the progress made on sustainable finance related activities along with an action plan for the next financial year.
3.6.3 For financial institutions to measure progress and impacts

For financial institutions:

- Encourage the establishment of monitoring and evaluation mechanism of sustainable finance progress and impacts within financial institutions.

- Encourage financial institutions to include ESG factors in their internal rating system and to publicly disclose their environmental and social performances and both positive and negative impacts.
## Part 4 Proposed Action Plan

<table>
<thead>
<tr>
<th>Sector</th>
<th>Key Actions</th>
<th>Timeline</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Short-term</td>
</tr>
<tr>
<td><strong>Pillar 1:</strong> Financing VISION 2030</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Banking</td>
<td>For regulators:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Develop specific sustainable loan guidelines or standards</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td>• Introduce incentive mechanism to promote sustainable loan and saving</td>
<td>✓ ✓</td>
</tr>
<tr>
<td></td>
<td>For banks:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Innovate sustainable loan products</td>
<td>✓ ✓</td>
</tr>
<tr>
<td></td>
<td>• Develop sustainable saving products</td>
<td>✓</td>
</tr>
<tr>
<td>Leasing</td>
<td>For regulators:</td>
<td>✓ ✓</td>
</tr>
<tr>
<td></td>
<td>• Encourage companies engaged in leasing business to develop sustainable leasing (and non-bank finance) framework, guidance and operational tools</td>
<td></td>
</tr>
<tr>
<td></td>
<td>For FIs <strong>engaged in leasing business:</strong></td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td>• Support green and socially inclusive projects through leasing (and non-bank finance) business</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Explore sustainable model of leasing (and non-bank finance)</td>
<td>✓</td>
</tr>
<tr>
<td>Insurance</td>
<td>For regulators:</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td>• Support development and provision of climate and disaster insurance products</td>
<td></td>
</tr>
<tr>
<td></td>
<td>For insurance companies:</td>
<td>✓ ✓</td>
</tr>
<tr>
<td></td>
<td>• Explore insurance solutions for</td>
<td>✓ ✓</td>
</tr>
</tbody>
</table>
## Capital Market

**For regulators:**
- Adopt international standards on sustainable bond and develop necessary domestic guidance and operational tools
- Encourage the adoption of external verification
- Explore potential incentive schemes sustainable bond issuance
- Support the development of sustainability related indices
- Support the establishment of sustainable funds

**For FIs:**
- Develop sustainable bond product
- Support issuance of sustainable bonds by acting as underwriters
- Allocate a portion of savings or funding to investment of sustainable bonds

---

## Pillar 2: ESG Integration into Financial Market

### Cross sectoral

**For regulators:**
- Improve availability and accessibility of publicly available environmental data from non-corporate entities
- Introduce ESG disclosure guidelines
- Develop specific ESG risk management guidance and operational tools
- Require FIs to disclose their sustainable finance strategies and ESG

---

21
<table>
<thead>
<tr>
<th>Roadmap for Sustainable Finance in Sri Lanka</th>
</tr>
</thead>
</table>

### Pillar 1: Data Collection and Risk Assessment

- Conduct country-level climate and disaster risk assessment for FIs:
  - For FIs:
    - Develop internal ESG risk management strategies and methods
    - Disclose both positive and negative environmental and social impacts generated through investment
    - Disclose sustainable finance policies and programs

### Pillar 2: Compliance and Disclosure

- Data at corporate level or asset level on regular basis
- Conduct country-level climate and disaster risk assessment for FIs
- For FIs:
  - Develop internal ESG risk management strategies and methods
  - Disclose both positive and negative environmental and social impacts generated through investment
  - Disclose sustainable finance policies and programs

### Pillar 3: Financial Inclusion

#### Cross-sectoral

- For regulators:
  - Develop and implement the National Financial Inclusion Strategy
  - Introduce grants and risk sharing facilities to support sustainable start-ups
  - Provide technical assistance for green project development and investor pitches
  - Support fintech companies and the development of digital tools

- For FIs:
  - Develop more accessible, affordable and efficient financial products and services

#### Banking

- For banks and finance companies:
  - Improve access to essential financial products and services
  - Explore the application of fintech and digital tools

---

Data at corporate level or asset level on regular basis

- Conduct country-level climate and disaster risk assessment for FIs
- For FIs:
  - Develop internal ESG risk management strategies and methods
  - Disclose both positive and negative environmental and social impacts generated through investment
  - Disclose sustainable finance policies and programs

### Pillar 3: Financial Inclusion

#### Cross-sectoral

- For regulators:
  - Develop and implement the National Financial Inclusion Strategy
  - Introduce grants and risk sharing facilities to support sustainable start-ups
  - Provide technical assistance for green project development and investor pitches
  - Support fintech companies and the development of digital tools

- For FIs:
  - Develop more accessible, affordable and efficient financial products and services

#### Banking

- For banks and finance companies:
  - Improve access to essential financial products and services
  - Explore the application of fintech and digital tools
### Pillar 4: Capacity Building

<table>
<thead>
<tr>
<th>Cross sectoral</th>
<th>For regulators:</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Internal capacity development for regulators</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td>• Support capacity building activities for FIs</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td>• Encourage the development of domestic green finance service providers</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td>• Encourage international collaboration</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td>• Support training programs for service providers</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td>• Introduce sustainable finance related courses into university and professional education</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td>• Develop and execute national level campaign programs</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td>• Encourage media coverage on sustainable finance issues and facilitate professional sustainable finance media development</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>For FIs:</td>
<td>• Develop internal ESG risk management training programs</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td>• Hire sustainable finance professionals</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td>• Support the implementation of sustainable finance campaign programs at local level</td>
<td>✓</td>
<td>✓</td>
</tr>
</tbody>
</table>

### Pillar 5: International Cooperation

<table>
<thead>
<tr>
<th>Cross sectoral</th>
<th>For regulators &amp; FIs:</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Participate in and learn from international collaboration platforms</td>
<td>✓</td>
<td>✓</td>
</tr>
</tbody>
</table>
### Roadmap for Sustainable Finance in Sri Lanka

- Expand and deepen the international cooperation and coordination on knowledge sharing and capacity building
- Mobilize international resources and funding

<table>
<thead>
<tr>
<th>Pillar 6: Measurement and Reporting</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cross sectoral</strong></td>
<td></td>
</tr>
<tr>
<td>For regulators:</td>
<td></td>
</tr>
<tr>
<td>- Establish a clear and detailed taxonomy for sustainable activities</td>
<td>✓</td>
</tr>
<tr>
<td>- Introduce a statistics system to track sustainable finance flows and impacts</td>
<td>✓</td>
</tr>
<tr>
<td>- Develop KPIs to measure the effectiveness of the implementation of the Roadmap</td>
<td>✓</td>
</tr>
<tr>
<td>- Require FIs to annually report the progress made on sustainable finance related activities along with an action plan for the next year</td>
<td>✓</td>
</tr>
<tr>
<td>For FIs:</td>
<td></td>
</tr>
<tr>
<td>- Establish monitoring and evaluation mechanism</td>
<td>✓</td>
</tr>
<tr>
<td>- Include ESG factors in internal rating system and publicly disclose ESG performance and impact</td>
<td>✓</td>
</tr>
</tbody>
</table>

24
References


IPCC, 2018. Global Warming of 1.5 ºC.


SLBA, 2018. SLBA Sustainable Banking Initiative (SBI) – Kick off Meeting 15.08.2017 – Speech by Director of Bank Supervision.


