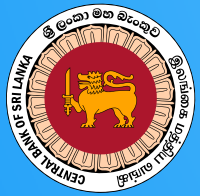


GREEN FINANCE FOR SRI LANKAN FINANCIAL INSTITUTIONS



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இலங்கை மத்திய வங்கி
CENTRAL BANK OF SRI LANKA

What is Green/ Sustainable Financing?

“ The term describes a broad range of funding for environment-oriented technologies, projects, industries or businesses. A narrower definition of green finance refers to environment-oriented financial products or services, such as loans, credit cards, insurances or bonds. ”

- **UNESCAP (2012)**

“ Green financing is to increase level of financial flows (from banking, micro-credit, insurance, and investment) from the public, private, and not-for-profit sectors to sustainable development priorities. ”

- **UNEP (2015)**

“ Green finance is any structured financial activity that’s been created to ensure a better environmental outcome. ”

- **World Economic Forum**

“ Sustainable Finance is the process of taking due account of environmental, social, and governance (ESG) considerations when making investment decisions in the financial sector, leading to increased longer-term investments into sustainable economic activities and projects. ”

- **European Commission**

Sustainable Development Goals (SDGs)

Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs.

SUSTAINABLE DEVELOPMENT GOALS



The Sustainable Development Goals (SDGs), also known as the Global Goals, were adopted by the United Nations in 2015 as a universal call to action to end poverty, protect the planet, and ensure that by 2030 all people enjoy peace and prosperity.

The 17 SDGs are integrated—they recognize that action in one area will affect outcomes in others, and that development must balance social, economic, and environmental sustainability.

- Goal 1: No Poverty
- Goal 2: Zero Hunger
- Goal 3: Good Health and Well-being
- Goal 4: Quality Education
- Goal 5: Gender Equality
- Goal 6: Clean Water and Sanitation
- Goal 7: Affordable and Clean Energy
- Goal 8: Decent Work and Economic Growth
- Goal 9: Industry, Innovation, and Infrastructure
- Goal 10: Reduced Inequality
- Goal 11: Sustainable Cities and Communities
- Goal 12: Responsible Consumption and Production
- Goal 13: Climate Action
- Goal 14: Life Below Water
- Goal 15: Life on Land
- Goal 16: Peace, Justice, and Strong Institutions
- Goal 17: Partnerships to Achieve the Goal

Paris Agreement

In 1988, the Intergovernmental Panel on Climate Change (IPCC) was formed to collate and assess evidence on climate change.

At the Earth Summit in Rio de Janeiro in 1992, governments agreed to the United Nations Framework Convention on Climate Change (UNFCCC). Its key objective is “stabilization of greenhouse gas concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system”.

Kyoto Protocol was signed in 1997. Developed nations pledged to reduce emissions by an average of 5% by the period 2008-12.

In 2015, Paris Agreement was adopted by 196 Parties at the UN Climate Change Conference (COP21) in Paris, France, which became a legally binding international treaty on climate change.

https://unfccc.int/sites/default/files/english_paris_agreement.pdf

Its overarching goal is “to hold the increase in the global average temperature to well below 2°C above pre-industrial levels” and pursue efforts “to limit the temperature increase to 1.5°C above pre-industrial levels.”

Since 2020, countries have been submitting their national climate action plans, known as Nationally Determined Contributions (NDCs).

The Agreement works on a five-year cycle of increasingly ambitious climate actions carried out by countries.

It endorses that the developed countries should take lead in providing financial assistance to countries that are less endowed and more vulnerable.

It is expected that by 2030, carbon neutral industries will be competitive due to the influence of the NDCs.

Sri Lanka NDCs

Sri Lanka submitted its initial NDCs in September 2016 as a country that ratified the Paris Agreement.

In 2020, the Climate Change Secretariat began the process of updating the NDCs to be submitted to the UNFCCC prior to COP26 held in Glasgow, Scotland, United Kingdom.

Based on the 2021 update to Sri Lanka’s NDC’s, the following key commitments are included:

- Increase 32% forest cover by 2030.
- Reduce greenhouse emission by 14.5% for the period of 2021-2030 from Power (electricity generation), Transport, Industry, Waste, Forestry, and Agriculture.

- To achieve 70% renewable energy in electricity generation by 2030.
- To achieve Carbon Neutrality by 2050 in electricity generation.
- No capacity addition of Coal power plants.
- Achieve Carbon Neutrality by 2050.

<http://www.climatechange.lk/CCS2021/UpdatedNDCsSriLanka2021.pdf>

Roadmap for Sustainable Finance in Sri Lanka

In 2016, CBSL initiated the development of the Sustainable Finance Roadmap for the financial sector in Sri Lanka through an inclusive and multi-stakeholder process.

In 2019, CBSL launched the Roadmap with the technical assistance of IFC-SBFN and financial assistance of UNDP, which revolves around six focus areas:

- Financing VISION 2030
- ESG Integration into financial market
- Financial Inclusion
- Capacity Building
- International Co-operation
- Measurement and reporting

The Roadmap was launched with the objectives of bringing policy cohesiveness across financial sector stakeholders in addressing ESG risks and facilitating private capital for sustainable investment to achieve SDGs. It aims to provide guidance and support to financial sector stakeholders to effectively manage ESG risks and increase support to businesses that are greener, climate-friendly, and socially inclusive.

<https://www.cbsl.gov.lk/en/roadmap-for-sustainable-finance-in-sri-lanka-2019>

In order to facilitate the implementation of the Roadmap in consultation with relevant government agencies and financial sector stakeholders, three committees were formed by the CBSL, namely Steering Committee on implementation of the Roadmap, Stakeholder Committee

on implementation of the Roadmap, and a Technical Committee to support the Steering Committee on implementation of the Roadmap.

Sri Lanka Green Finance Taxonomy

In line with the Sustainable Finance Roadmap, CBSL launched the Sri Lanka Green Finance Taxonomy in 2022 with the technical and financial assistance of IFC.

Taxonomy is a classification system identifying activities, assets and revenue segments that deliver key sustainability goals based on the eligibility conditions set out thereof. By adhering to the Taxonomy, avoidance of greenwashing is expected in the financial sector.

Taxonomy covers three priority areas:

- Climate mitigation
- Climate adaptation
- Other green objectives

Priority sectors identified in the Taxonomy are:

- Agriculture
- Construction
- Tourism and recreation
- Electricity, gas, steam, and air-conditioning supply
- Water supply, sewerage, and waste management

This Taxonomy is based on International Platform on Sustainable Finance's (IPSF) Common Ground Taxonomy, which harmonizes both European and Chinese taxonomies.

All the regulated financial institutions are expected to follow Sri Lanka Green Finance Taxonomy when classifying and reporting green finance products.

<https://www.cbsl.gov.lk/sl-green-finance-taxonomy>

Role of the Regulator

In 2022, CBSL issued a Banking Act Direction that encourages licensed banks to raise funds using innovative financial instruments such as green and sustainable bonds and to invest in sustainable activities.

In addition, the Direction guides banks on roles and responsibilities of the management regarding ESG, disclosure measures, and building capacity of staff members on sustainable finance activities.

https://www.cbsl.gov.lk/sites/default/files/cbslweb_documents/laws/cdg/Banking_Act_Directions_No_5_of_2022.pdf

Considering the importance of sustainable economy and need for providing with a governance and risk management framework, a similar guideline was issued by CBSL for the Licensed Finance Companies (LFC) to facilitate sustainable finance initiatives in line with the Roadmap.

https://www.cbsl.gov.lk/sites/default/files/cbslweb_documents/laws/cdg/snbfi_letter_to_ceos_of_lfc_20221129_e.pdf

Reporting requirements for the Financial Institutions

Based on the Direction issued by CBSL, licensed banks shall disclose the following information related to sustainable finance practices in their annual reports and quarterly submit data on credit granted for sustainable/green activities:

- An overview of the bank's sustainable finance policies and activities.
- Identified sustainable finance-related risks and associated mitigation measures; and
- A statement on banks approach towards sustainable finance activities and way forward.

Based on the requirements of the framework, following may be reported by the financial institutions;

- Allocation Reporting: Confirmation that the use of proceeds of Green Financing Instruments outstanding are in line with the eligibility criteria set by the Taxonomy.
- Impact Reporting: Assessment of the impact made by providing finance to a green project in terms of achieving an environmental target.

Products currently available for Green Finance Customers

Currently, the banking sector lacks well-defined green finance products being offered, however, related facility types qualified for green financing under Sri Lanka Green Finance Taxonomy are available including and not limiting to below facilities:

- Import LC
- Export LC
- Import invoice financing/ Loans against imports
- Pre-shipment finance
- Shipping guarantees
- Export invoice financing
- Receivable services
- Import loans
- Short term loans/ Overdrafts
- Term loans

Potential products for green financing may include:

- Green Loans
- Green/ Blue Bonds
- Green Deposits (Savings/ Term)
- Debt-for-Nature Swaps
- Blended Finance
- Concessional Finance
- Credit Guarantees

Granting process for Green Financing

While the usual credit review process will be followed, eligibility based on Sri Lanka Green Finance Taxonomy and any shortfalls will be highlighted and customers will be educated/encouraged to obtain necessary clearances, accreditations, certifications etc.

Reviewing Process

Granting of approval as per the delegated authority of the bank plus external approval as per the project specification.

Forms of external verification may include and is not limited to; Second Party Opinion (SPO), Certification and Rating related to green finance instruments such as green bonds.

E.g., Clearance/ approvals/ licenses for Hydro/ Wind/ Ground mounted Solar of National scale requires approvals from Sri Lanka Sustainable Energy Authority (SLSEA), Public Utilities Commission of Sri Lanka (PUCSL), Central Environment Agency (CEA), National Building Research Organization (NBRO), Mahaweli Authority of Sri Lanka (MASL), Ceylon Electricity Board (CEB), Wildlife Department, Grama Niladari, Archaeological Department, etc.

Related Links

- <https://www.unfccc.int/>
- <https://www.cop28.com/>
- <https://www.sbfnetwork.org/>
- <http://www.climatechange.lk/>
- <https://www.cbsl.gov.lk/>
- <https://www.sustainablebanking.lk/>
- <http://www.env.gov.lk/>
- <https://www.energy.gov.lk/>
- <https://www.pucsl.gov.lk/>
- <https://www.srilankagbc.org/>
- https://www.finance.ec.europa.eu/sustainable-finance/international-platform-sustainable-finance_en

Abbreviations

BIOFIN	Biodiversity Finance Initiative
CBSL	Central Bank of Sri Lanka
CEA	Central Environment Agency
COP	Conference of Parties (E.g., COP21, COP27)
ESG	Environmental, Social, and Governance
IFC	International Finance Corporation
IPCC	Intergovernmental Panel on Climate Change
IPSF	International Platform on Sustainable Finance
LFCs	Licensed Finance Companies

LC	Letter of Credit
MASL	Mahaweli Authority of Sri Lanka
NBRO	National Building Research Organization
NDCs	Nationally Determined Contributions
PUCSL	Public Utilities Commission of Sri Lanka
SBFN	Sustainable Banking and Finance Network
SDGs	Sustainable Development Goals
SLSEA	Sri Lanka Sustainable Energy Authority
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UNESCAP	United Nations Economic and Social Commission for Asia and the Pacific
UNFCCC	United Nations Framework Convention on Climate Change

Further Information

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For technical clarifications on Sri Lanka Green Finance Taxonomy

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