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இலங்கை மத்திய வங்கி  
CENTRAL BANK OF SRI LANKA

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வங்கியல்லா நிதியியல் நிறுவனங்களின் மேற்பார்வைத் திணைக்களம்  
DEPARTMENT OF SUPERVISION OF NON-BANK FINANCIAL INSTITUTIONS

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29<sup>th</sup> November 2022

Chief Executive Officers  
Licensed Finance Companies

Dear Sir/Madam

### Guidelines on Sustainable Finance Activities

We enclose herewith the Guidelines on Sustainable Finance Activities, applicable to all licensed finance companies (LFCs).

These guidelines are issued considering the importance of a sustainable economy and the need for providing with a governance and risk management framework for sustainable finance activities of LFCs, with a view to facilitating the sustainable finance initiatives of LFCs in line with the Roadmap for Sustainable Development published by the Central Bank of Sri Lanka in 2019.

Hereby, all LFCs are requested to communicate the attached guidelines to all the relevant officers and implement the requirements as specified in the guidelines.

Yours faithfully,

(Mrs.) R M C H K Jayasinghe  
Director

*Encl:* The Guidelines on Sustainable Finance Activities

## **GUIDELINES ON SUSTAINABLE FINANCE ACTIVITIES**

### **1. Introduction**

- 1.1. The Central Bank of Sri Lanka (CBSL) having considered the importance of committing to achieving the Sustainable Development Goals set by the United Nations and the need to transit Sri Lanka towards a green, inclusive and balanced economy, published the Roadmap for Sustainable Development (the Roadmap) on 10.04.2019. The Roadmap provides a broader direction to financial regulators and financial institutions to effectively manage environmental, social and governance (ESG) risks associated with projects they finance and to assist businesses that are greener, climate friendly and socially inclusive.
- 1.2. Further, CBSL published the Sri Lanka Green Finance Taxonomy (the Taxonomy) on 06.05.2022, establishing a classification and measurement system for sustainable finance activities in Sri Lanka.

### **2. Objective of the Guidelines**

- 2.1. These guidelines are issued considering the importance of a sustainable economy and the need for providing with a governance and risk management framework for sustainable finance activities of Licensed Finance Companies (LFCs), with a view to facilitating the sustainable finance initiatives of LFCs in line with the Roadmap.

### **3. Applicability**

- 3.1. These guidelines shall be applicable to all LFCs.

### **4. Implementation of the Roadmap and Reporting to the Director, Department of Supervision of Non-Bank Financial Institutions (the Director)**

- 4.1. LFCs are required to implement the Roadmap, following the timelines given in its action plan, or as amended.
- 4.2. LFCs are required to submit information or documents as directed by the Director under the powers vested with the Director by the Section 15 of the Finance Business Act, No. 42 of 2011, on their sustainable finance activities in the manner, in such form and at such intervals or at times as shall be specified by the Director.

## **5. Identified Priority Sectors for Sustainable Finance Activities**

5.1. The Taxonomy identifies the following priority sectors for sustainable finance activities:

- a) forestry and logging;
- b) agriculture;
- c) manufacturing;
- d) electric power generation, transmission and distribution;
- e) water supply, sewerage and waste management;
- f) construction;
- g) transportation and storage;
- h) tourism and recreation;
- i) information and communication technology;
- j) financial services (facilitating provision of affordable insurance products to increase climate resilience of agriculture and tourism activities); and
- k) other activities such as, gas, steam, and air conditioning supply, underground permanent geological storage of CO<sub>2</sub>, Hydrogen storage.

5.2. LFCs are requested to utilize the Taxonomy to identify and classify the relevant activities to the above priority sectors, when granting funding and reporting on sustainable finance activities.

5.3. LFCs are encouraged to develop sustainable savings products and sustainable loan products, including sustainable leasing products.

5.4. LFCs are encouraged to support green and socially inclusive projects and issue guidance and operational tools, as required.

## **6. Governance Framework for Sustainable Finance Activities/Initiatives**

6.1. Board of Directors (BODs) are encouraged to effectively and efficiently oversee the sustainable finance activities in LFCs.

6.2. LFCs are requested to develop a sustainable finance policy approved by BODs, at minimum including the followings:

- a) clear roles and responsibilities of BODs and senior management who are implementing sustainable finance activities;
- b) identifying and managing of ESG risks, and risks relating to sustainable finance activities; and
- c) parameters and metrics for measuring the progress of sustainable finance activities.

- 6.3. The Chief Executive Officer and relevant Key Responsible Persons of LFCs, under the guidance provided by BODs, are requested to ensure the followings:
- a) policies, tools, metrics, operational procedures and controls implemented by LFCs in respect of sustainable finance activities are reviewed and updated at least annually, and integrated with other relevant policies and procedures of LFCs;
  - b) adequate resources, skills and expertise are allocated to the implementation and management of sustainable finance activities;
  - c) clear articulation of roles and responsibilities of business units and functions in managing risks associated with sustainable finance activities; and
  - d) BODs are informed in a timely manner on the progress and material issues, relating to sustainable finance activities.

## **7. Risk Management**

- 7.1. LFCs are requested to identify and evaluate ESG risks, and risks relating to sustainable business activities, considering the nature, scale, complexity and interconnectedness of their operations and assess the magnitude and materiality of such risks.
- 7.2. LFCs are requested to incorporate the identified ESG risks in LFC's overall risk management framework.
- 7.3. LFCs are requested to implement effective risk management practices and internal controls to mitigate the identified risks, and incorporate ESG risk management to the entire decision-making processes.

## **8. Capacity Building and Innovation**

- 8.1. LFCs are encouraged to;
- a) develop ESG risk management skills of its staff members through internal or external trainings;
  - b) develop internal expertise to implement sustainable finance related activities or hire sustainable finance professional/s as appropriate, for such implementation; and
  - c) develop expertise in environmental stress testing and scenario analyses.

## **9. Disclosures and Reporting**

- 9.1. LFCs are requested to disclose the following information related to sustainable finance activities in their annual reports:
- a) an overview on sustainable finance policies and activities;

- b) identified ESG and sustainable finance related risks and associated mitigation measures;
  - c) the environmental and social impact of current and proposed investments and business activities;
  - d) the progress made on sustainable finance related activities including implementation of the Roadmap and the action plan for the next year; and
  - e) the total and annual amounts of sustainable funds raised for and funds allocated to sustainable finance related activities.
- 9.2. LFCs are requested to disclose the environmental and social impact generated from business activities using internationally recognised reporting frameworks, such as Global Reporting Initiative and recommendations of the Task Force on Climate-related Financial Disclosures.