

October 2024

# Green Finance Maturity Assessment of Sri Lankan Financial Institutions

Findings based on a survey conducted by Centre for a  
Smart Future *in partnership with* Biodiversity Sri Lanka

**Summary Report**



## Background

The green finance opportunities in Sri Lanka are expanding, both in terms of funding lines available to banks and Non-bank finance companies, but also in terms of new lending opportunities to green projects. But there is still little known in detail about where the market is at, and where industry players are doing well versus lagging behind. Centre for a Smart Future and Biodiversity Sri Lanka partnered to conduct a study on the current status of green financing in the Sri Lankan financial services sector.

## How it can help

The findings from the survey will help the sector understand their relative position, and help regulators, policymakers, and development partners better target their support to strengthen and advance green financing initiatives in the country.

## About this survey

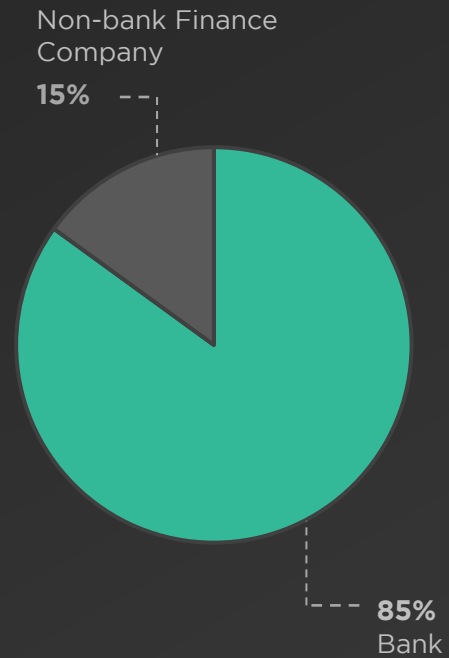
The 'Green Finance Maturity Assessment' was conducted under a partnership between **Centre for a Smart Future (CSF)** and **Biodiversity Sri Lanka (BSL)**, as part of an ongoing collaboration. The survey was administered through an online questionnaire, and supported by telephone follow-up. The survey was sent to specific persons in each institution. The responder and corresponding institution was identified by a green finance expert at BSL. Total number of respondents are twenty (20). The findings from the assessment are expected to also support the ongoing EU PLASTICS project.

## Confidentiality

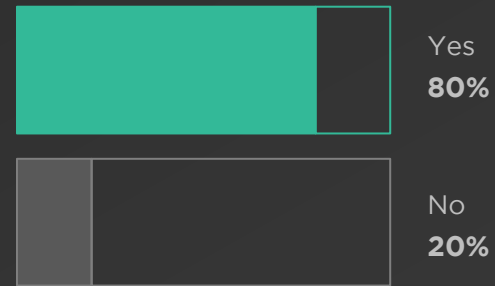
All responses are treated confidentially, and information gathered are for research purposes only. No commercial entities will have access to the data collected. Only the aggregated findings will be published, and no individual FI's results are published.

# Profile of the Surveyed FIs and Respondents

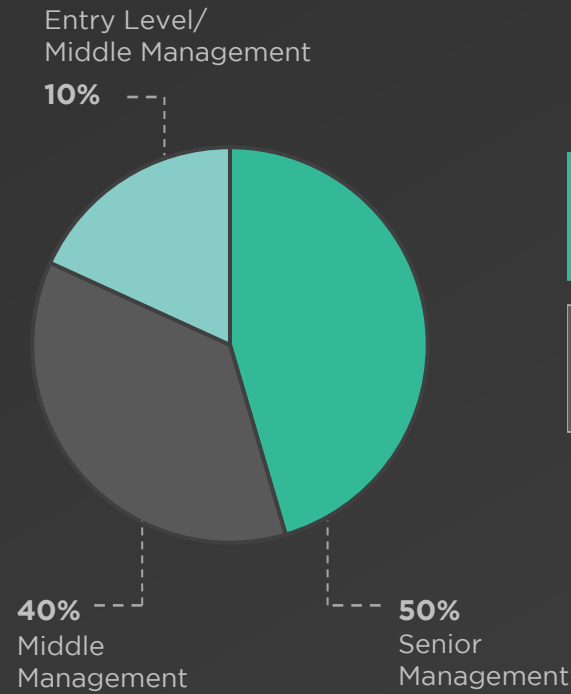
Is your organisation a Bank or Non-bank Finance Company?



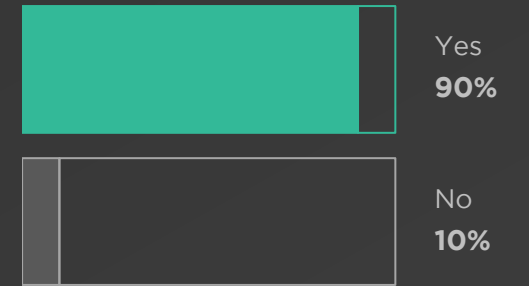
Is your organisation listed on the Colombo Stock Exchange?



What is your current level of designation in the organisation?



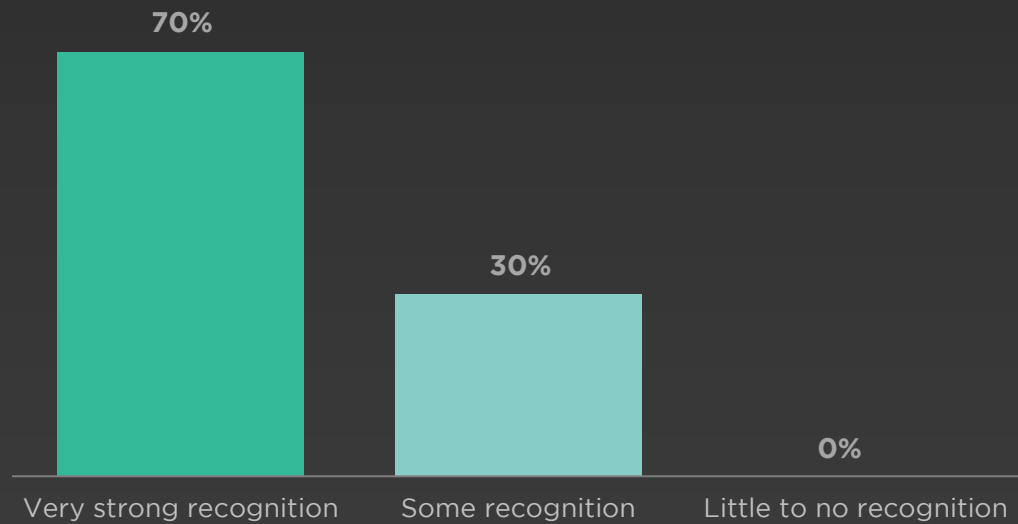
Is green finance explicitly part of your current job role?



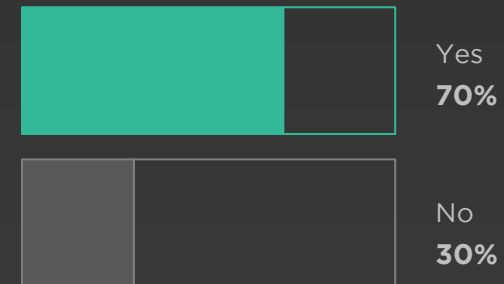
\*All percentages are based on responses by 20 survey participants in total

## Strategic recognition of the green finance agenda

To what extent does the organisation's Board and senior management recognize the strategic role that green finance can play in the organisation's lending book growth going forward?

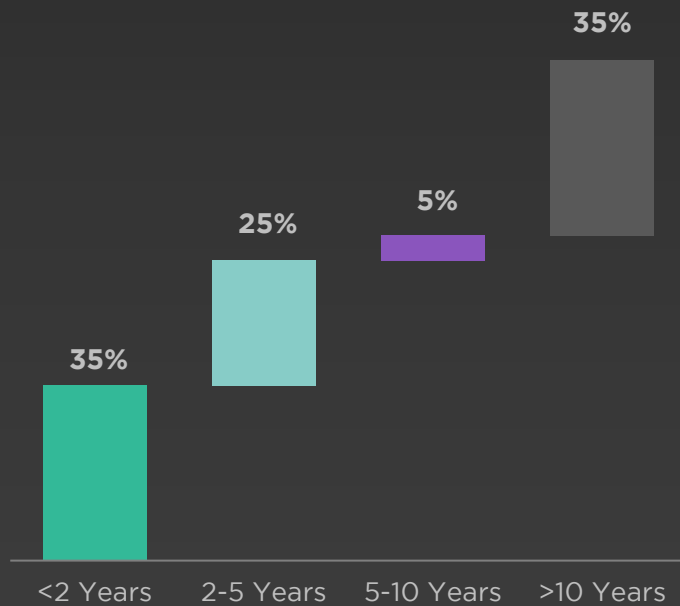


Does your organisation have a Board-approved policy or other form of internal guidelines specifically on green finance?

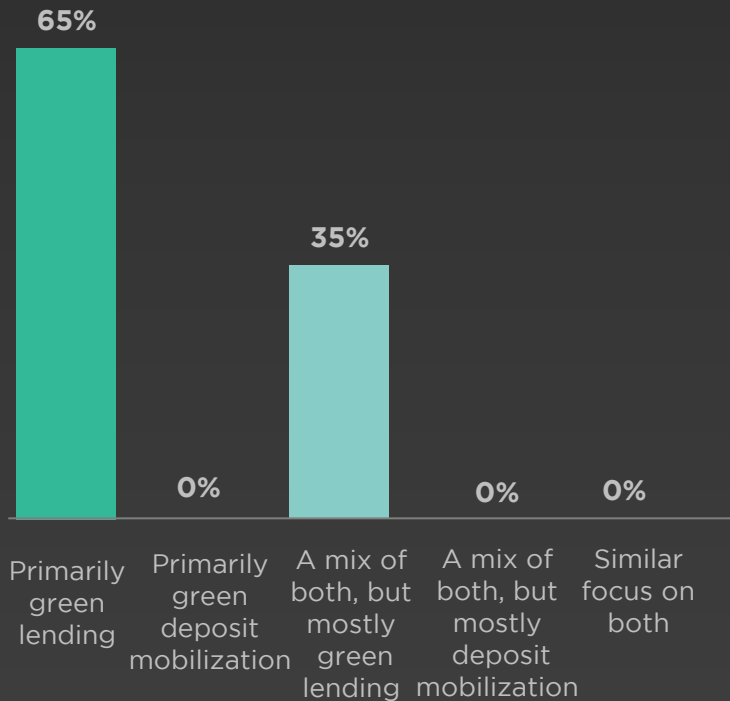


## Current green finance activities of FIs

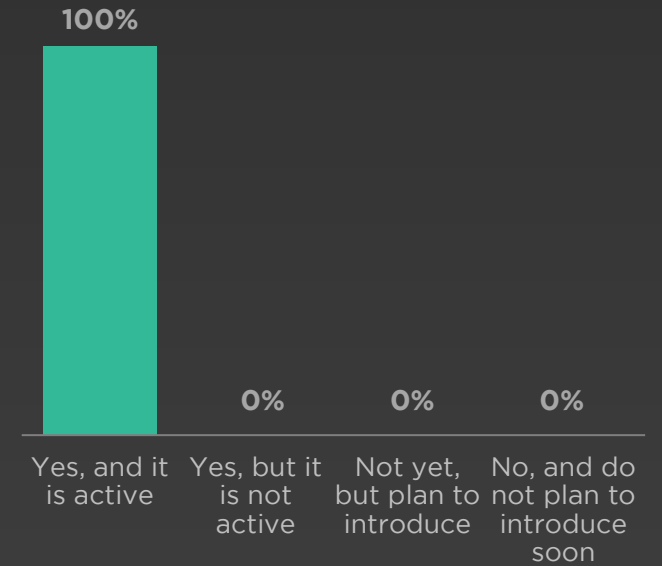
In your assessment, how many years has the organisation been actively engaging in the green finance space?



If green finance is currently a focus of the organisation, is it mostly on green lending or green deposit mobilization?

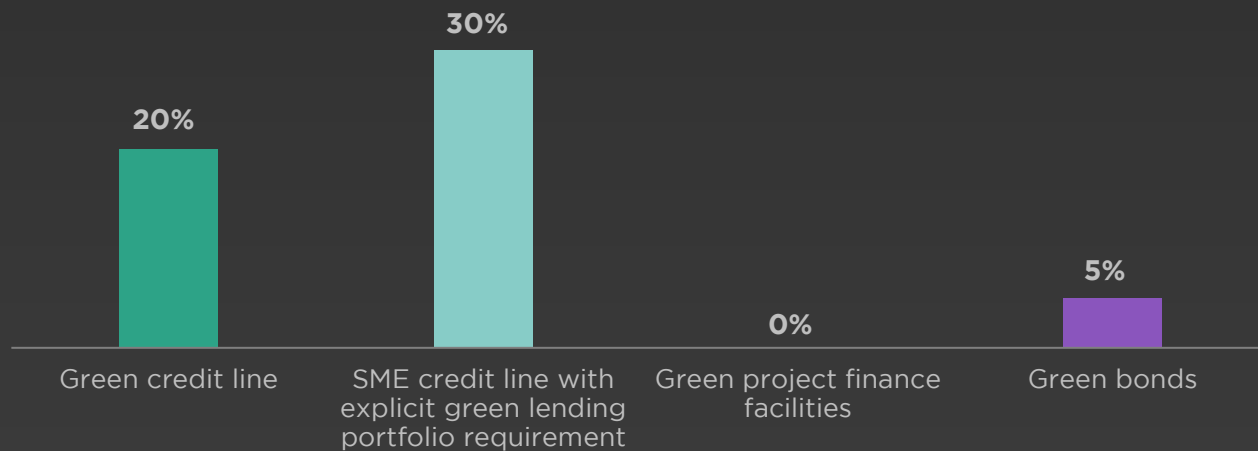


Does the organisation currently offer green lending facilities to your customers?



## Current green finance activities of FIs (cont...)

Has your organisation tapped into any external sources of green funding recently? *(for instance, green credit lines, SME credit lines with an explicit green lending portfolio requirement, green project finance etc.)*

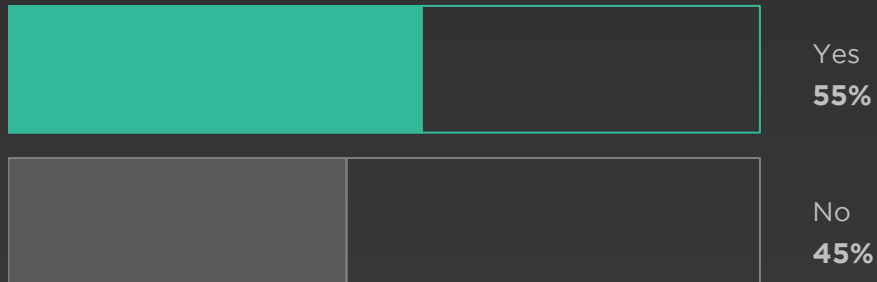


### Other responses:

- None of the sources are open at the moment due to country rating
- Planning to tap such sources
- Green Climate Fund (GCF)
- Currently engaged with the ADB-funded loan scheme, which is highly concerned with climate change impact.
- Funding from overseas head office
- Globally yes. Nothing locally

## Demand-side conditions

Do your customers expect services beyond credit facilities to support their green transition?



If 'Yes', what kind of additional services?

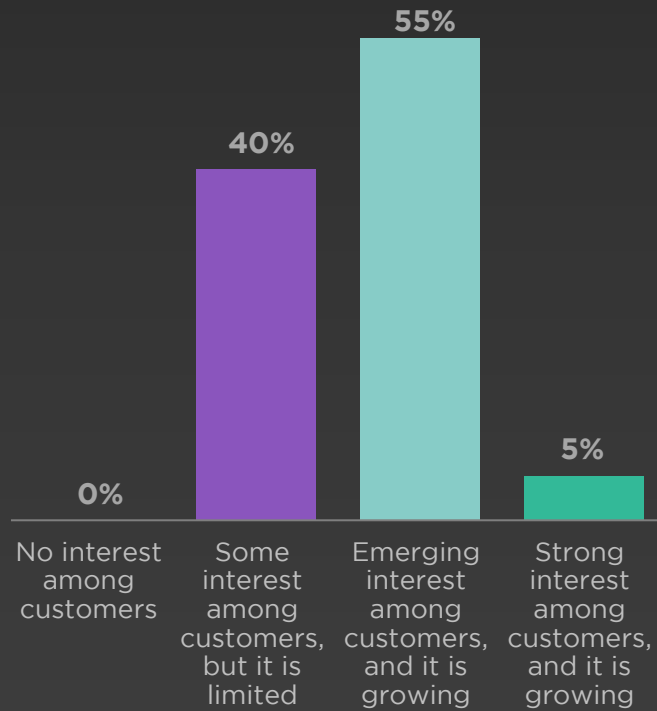


Responses received:

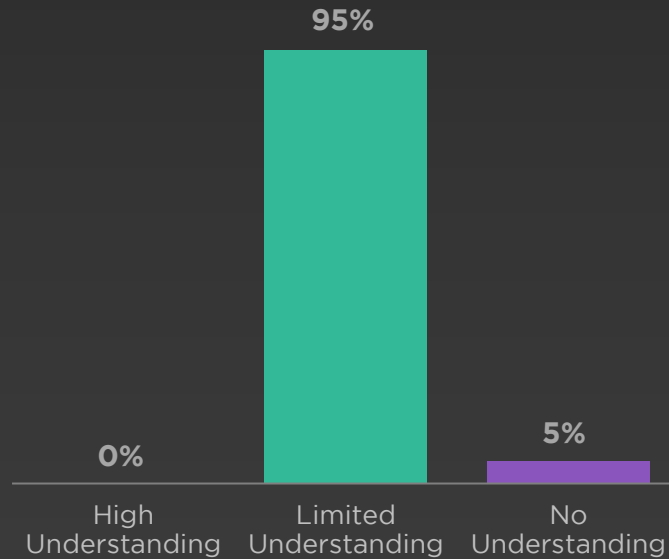
- Selection of best green options
- Lost cost funding for their transition
- Advisory services
- Support with Environmental Impact Assessments
- Very loan interest rates, easier process for obtaining approvals
- Mainly expecting support in building technical capabilities and capacity building in green transition.
- Advisory support
- Thought leadership
- Constant follow-up with them until the desired outcome is achieved

## Demand-side conditions (cont...)

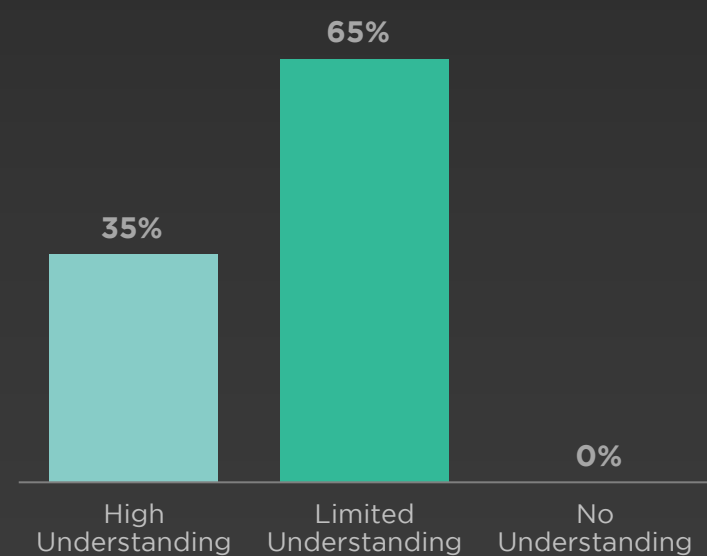
To what extent are your organisation's customers interested in accessing green finance facilities?



Considering your average SME customer, to what extent do they understand the products and potential of green finance?



Consider your average corporate banking customer, to what extent do they understand the products and potential of green finance?

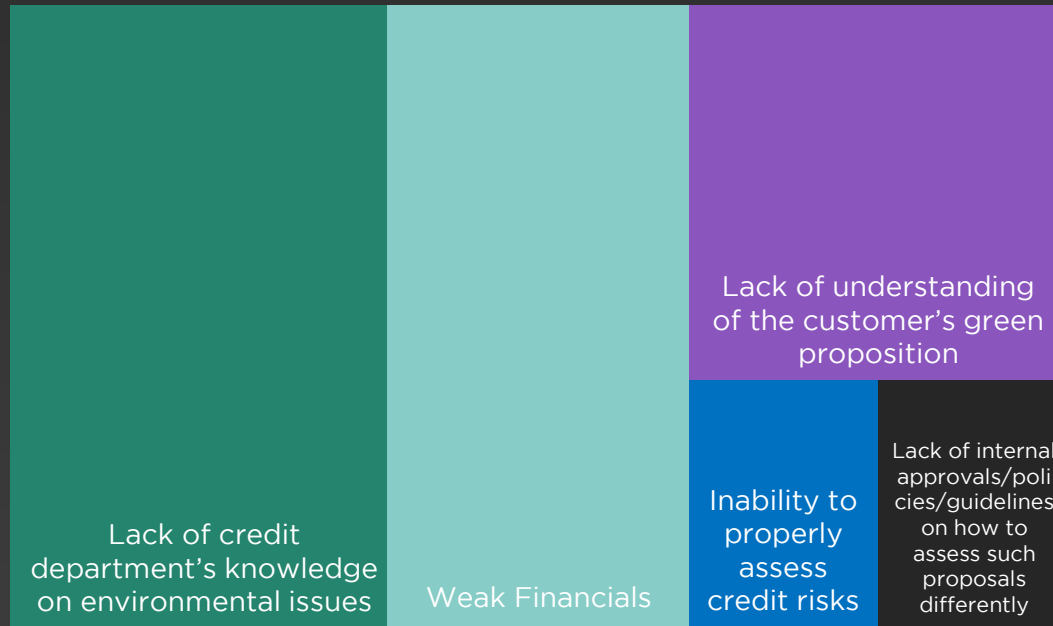


'installation of renewable energy like solar (residential, office, industrial)' was the main purpose that customers were borrowing for.



# Challenges in assessing green credit

What are the top challenges you face when assessing green credit proposals?



### Other responses received:

- Lack of integrated assessment based on credit and ESG risks
- Certification
- At the moment we have only one product, the Solar Scheme. It has not caused any difficulties up to now
- Most of the green proposal's collateral is weak or unsecured
- Lack of knowledge on new technologies, need for very long term financing and higher equity contributions to make the projects feasible
- Requirement is mainly term funding - we are facing challenges in providing the full loan tenure required by Clients

## Internal capabilities and challenges

Which of the statements best reflect the extent of organisation's internal staff capabilities for green finance?

Equal number of respondents indicated:

**'We have a separate green lending department or desk with dedicated staff'**

or

**'We do not have a separate department or desk, but we have hired dedicated green finance specialists to work within existing departments like SME, corporate, project finance'**



**Other responses:**

- Staff are educated on Green Finance
- In the process of hiring a specialist for the program
- The Bank consider design and development of green lending products as part of loan product development and service customers through its branch network
- SME and Sustainability Unit work closely with Green Financing
- A dedicated Sustainability Unit has been formed
- We are in the process of designing an internal Green Financing policy and dedicated staff to be trained
- We are still at the initial stage of implementing a unit for sustainable activities, including sustainable financing.
- We don't have experts on green lending. only few have participated for few training

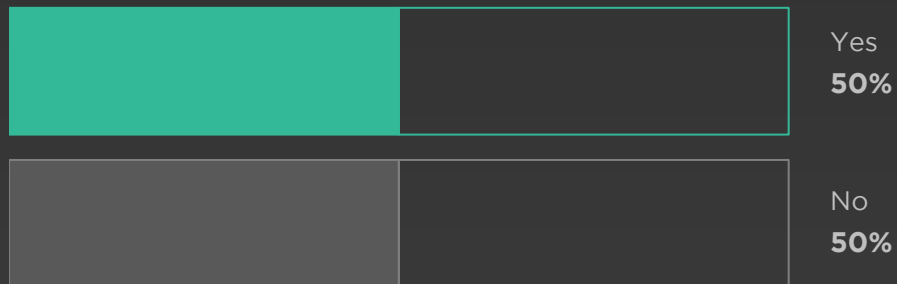
## Internal capabilities and challenges (cont...)

What are some of the most important internal challenges your organisation faces with regard to growing the green finance portfolio? *(select up to 3 most important)*



## Addressing internal capability gaps

Has the organisation sought external technical expertise on green finance recently? (for e.g., to advise on green finance practices, risk assessment, green credit appraisal, mobilizing green funds, developing green lending products, etc.)



If 'Yes', what type of technical expertise?

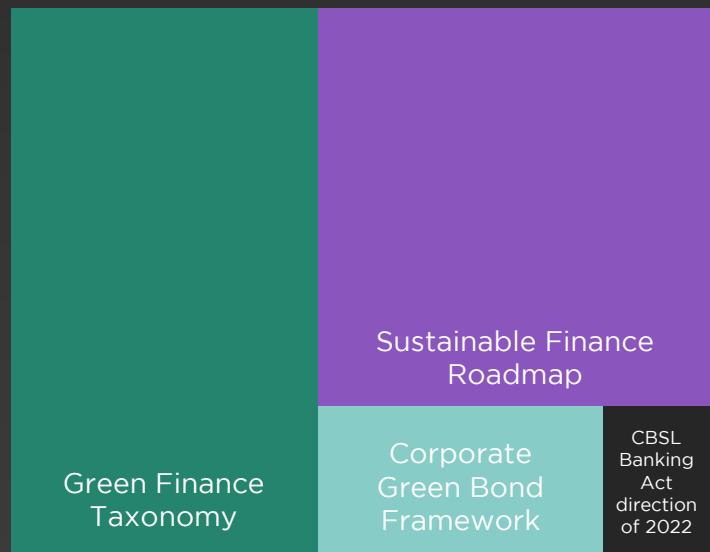


### Responses received:

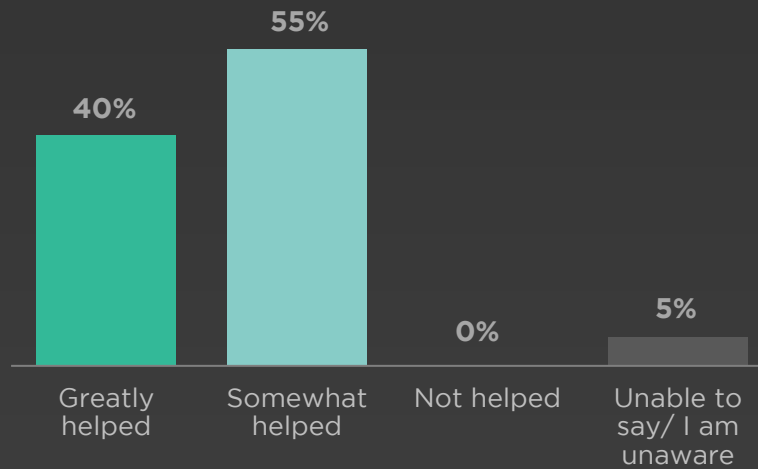
- Formulation of Concept Notes to obtain funding from GCF
- Technical expertise to implement the green finance deposit strategies
- Financed emissions
- Developing Sustainable Finance Policy and Framework
- Developing green lending products, mobilizing green funds and risk assessments
- Ways to enhance the green portfolio include adopting green finance practices, conducting risk assessments, and performing green credit appraisals.
- To develop climate transition plan of the Bank
- DFI support to strengthen and adopt best practices to meet our vision
- Green Finance Practices and available avenues for green finance
- Technical assistance for the issuance of sustainable bonds

# Framework conditions and policy/regulatory environment

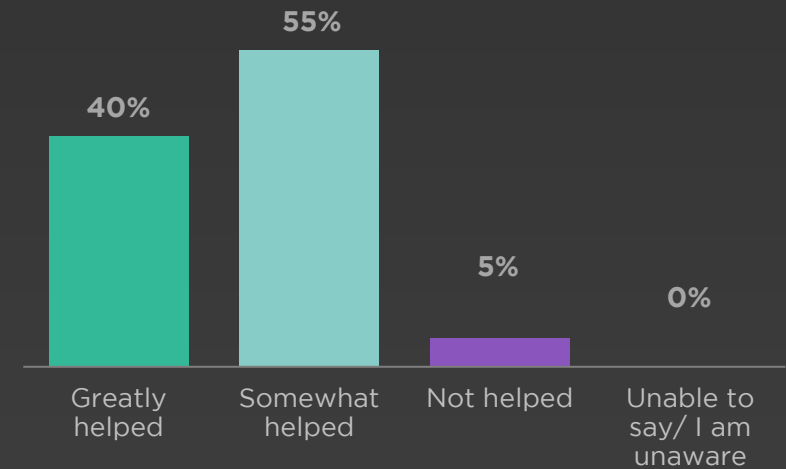
Which of these national policies and frameworks are you aware of (*select all that apply*):



To what extent has having national policies and frameworks like the green finance taxonomy and sustainable finance roadmap helped advance the green finance agenda in Sri Lanka?

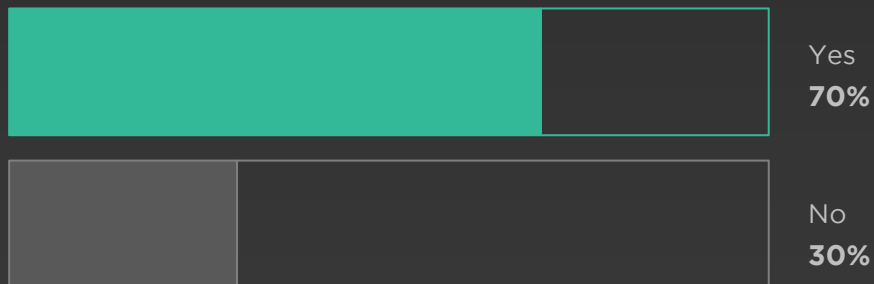


To what extent has having national policies and frameworks like the green finance taxonomy and sustainable finance roadmap helped advance the green finance agenda in your organisation specifically?



## Framework conditions and policy/regulatory environment (cont...)

Are you aware of, or directly part of, initiatives to introduce new green debt frameworks/instruments in Sri Lanka either at national level, or at financial industry level?



If you selected yes in the above question, please elaborate.



Responses received:

- Workshops on GSS Bonds to industry and regulators
- Currently Few meetings were held by the Colombo stock exchange to introduce green bonds
- As a stakeholder, being a state, participated at the workshops organised for developing green bond framework for the country.
- CSE has develop a framework to list Green Bonds
- There are programs conducted under PLASTICS project under the leadership of a special body by Ministry of Finance on Circular and Green Economy principles.
- Pan Asia bank became the first Sri Lankan Bank to partner with Switzerland based Symbiotics for its first green bond issuance for USD 7.75 million.

## Framework conditions and policy/regulatory environment (cont...)

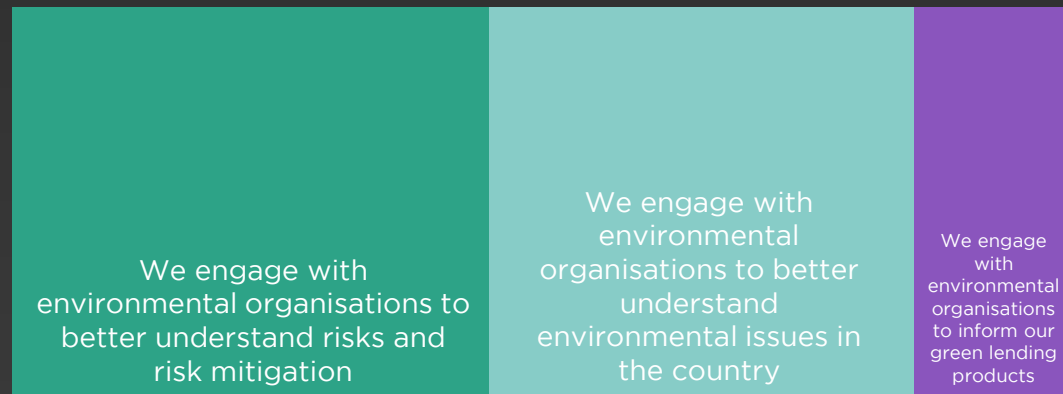


### Responses received (Continued...):

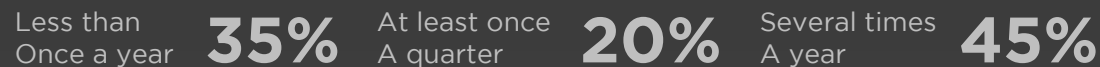
- The Green Bond concept is in the position to be implemented in Sri Lanka with the support of CES.
- CSE also paving way to issue Green and sustainable bonds in the local market. DFCC Bank is to launch first Green Bond.
- Sri Lanka Green Finance Taxonomy
- Exploring possibility to have a Blended finance facility for the country
- Aware of the Government Green Bonds
- CSE has introduced the guidelines for the issuance of the green bonds
- Sri Lanka Banker's Association Sustainable Banking Initiative is exploring a blended finance solution for Sri Lanka together with the Sustainable Development Council and Ceylon Chamber of Commerce

# FIs engagement with environmental organisations

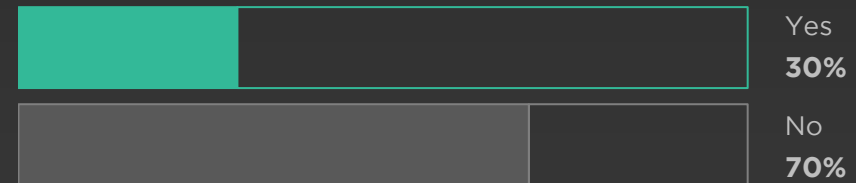
Which of the following sentences would best describe your organisation’s engagement and relationship with environmental organisations like conservation NGOs, environmental rights organisations?



How regularly does the organisation engage with environmental organisations, in the ways described above?



Does the organisation have any formal partnerships or collaborations with environmental organisations not in a CSR capacity but specifically for informing and advising on green finance-related matters?



*\*(e.g. Environmental Foundation Get Ltd, Biodiversity Sri Lanka, Institute of Environment Professionals, etc.),*

If you selected yes in the above question, which ones?



### Responses Received

- Biodiversity Sri Lanka
- Federation of Environment Organisation
- The Wilderness and Wildlife Conservation Trust
- Department of Forest
- IFC
- UNGC

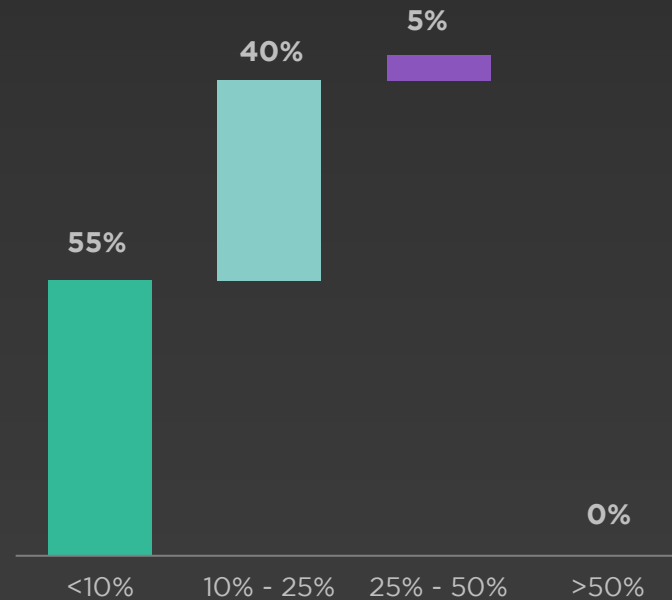


## Medium-term outlook for green finance by FIs

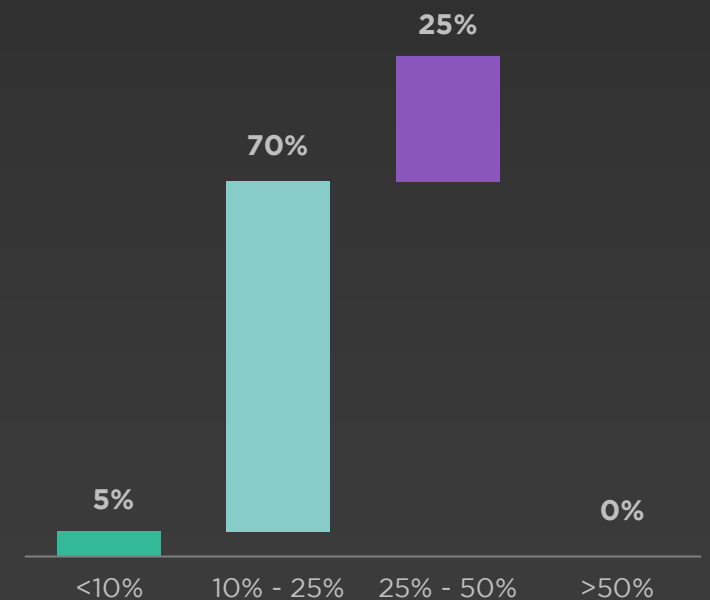
To the best of your knowledge, do you know if the organisation intends to raise funding (e.g. green deposits, green debentures etc.) for green lending in the near future?



How much of your organisation's lending portfolio will be projects that utilize green finance in the next 5 years?



How much of your organisation's lending portfolio will be projects that utilize green finance in the next 10 years?



## Perspectives on future orientation and priorities

What more needs to be done from a national policy and regulatory standpoint to advance green finance in Sri Lanka?

“

- Awareness creation.
- Provide technical support for banks to implement policies.
- Facilitate information sharing and database build-up.
- Industry-wide benchmarks have to be set in all aspects related to greening the country, with time targets commensurate with adequate and affordable funding for the industries to adopt green practices.
- Develop a clear and inclusive green taxonomy to identify eligible green projects and investments. This will provide clarity to financial institutions and investors./Mandate comprehensive ESG disclosure for financial institutions and listed companies to enhance transparency and accountability.
- Tax concessions & other benefits should be given to encourage banks & financial institutions.

“

- The policies should be directed to actionable implementation targets through financial industry while promoting the green products landscape among customers and investors as well with cost benefit analysis to them and society as a whole.
- introduce a one-stop shop for issuing green certificates.
- Actually, if the government can make a list of highly concerned green products to address the current scenario with future expectations, it would be a great help to banks for directing our business. Otherwise, many green products will be designed, just like planting trees everywhere is the only answer for protecting the environment.
- Though the policy is there, still government institutions are not ready to provide smooth services, especially in processing approvals and licenses. The country doesn't have a green pipeline.

## Perspectives on future orientation and priorities (cont...)

What more needs to be done from a national policy and regulatory standpoint to advance green finance in Sri Lanka?

“

- Sri Lanka needs clear green finance regulations, incentives for sustainable investments, standardized reporting frameworks, and increased stakeholder collaboration to advance green finance effectively.
- More incentives to customers as well as financing institutions are required.
- Less bureaucracy in approvals for green projects, monitoring the impact made by the projects, more education on the subject, and facilitating access to cheap funding available outside for green projects.
- To provide assistance in developing Green/ Sustainable Bond frameworks with clear set of guidelines, and introduce a clear set of sector and subsector codes to classify the qualifying green assets.

“

- Taxonomy needs re-evaluation and expansion. Science Based Measurement options need to be brought in.
- Have clear policy implementation mechanisms.
- Familiarizing and simplifying the Green Finance Taxonomy which could be easily understood by the credit staff.



Centre for a Smart Future (CSF) is a Colombo-based think tank with researchers, advisors, and partners around the world. We conduct high-quality research, promote collaboration across disciplines, and generate actionable ideas. Our current work is anchored to influencing a just recovery from Sri Lanka's polycrisis, with the environment and human well-being at the core.

Our research has partnered with organisations such as Institute of Development Studies, London School of Economics, International Labour Organization, Open Society Foundation, Blue Resources Trust, and Biodiversity Sri Lanka.

What sets us apart is our interdisciplinary approach to research and policy advocacy. We like being imaginative in how we think about challenges and solutions. We continually engage with a spectrum of stakeholders - from local communities to policymakers - which ensures that our research is relevant and accessible to a broad audience, while also contributing to meaningful policy change.

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### **A Publication under CSF's thematic pillar on: Nature, Climate & Economy**

We conduct research, convene stakeholders, and communicate policy imperatives for putting nature and natural capital at the core of Sri Lanka's post-crisis economic recovery, and its medium-term development pathways. Ongoing work includes innovative financing for conservation and a green recovery, strengthening financial institutions' environmental integration, nature-positive tourism, and reorienting growth metrics towards better considerations of natural capital.

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