

A Sustainable Banking Network (SBN)  
Flagship Report  
Addendum to SBN Global Progress Report

October 2019

# Country Progress Report

## Sri Lanka



Sustainable  
Banking  
Network



**IFC**

International  
Finance Corporation  
WORLD BANK GROUP

*Creating Markets, Creating Opportunities*

© International Finance Corporation [2019], as the Secretariat of the Sustainable Banking Network (SBN). All rights reserved. 2121 Pennsylvania Avenue, N.W. Washington, D.C. 20433 Internet: [www.ifc.org](http://www.ifc.org). The material in this work is copyrighted. Copying and/or transmitting portions or all of this work without permission may be a violation of applicable law. IFC and SBN encourage dissemination of their work and will normally grant permission to reproduce portions of the work promptly, and when the reproduction is for educational and non-commercial purposes, without a fee, subject to such attributions and notices as we may reasonably require.

IFC and SBN do not guarantee the accuracy, reliability, or completeness of the content included in this work, or the conclusions or judgments described herein, and accept no responsibility or liability for any omissions or errors (including, without limitation, typographical errors and technical errors) in the content whatsoever or for reliance thereon. The boundaries, colors, denominations, and other information shown on any map in this work do not imply any judgment on the part of The World Bank Group concerning the legal status of any territory or the endorsement or acceptance of such boundaries.

This work was prepared in consultation with SBN members. The findings, interpretations, and conclusions expressed in this volume do not necessarily reflect the views of the Executive Directors of The World Bank Group, IFC, or the governments they represent. The contents of this work are intended for general informational purposes only and are not intended to constitute legal, securities, or investment advice, an opinion regarding the appropriateness of any investment, or a solicitation of any type. IFC or its affiliates may have an investment in, provide other advice or services to, or otherwise have a financial interest in, certain of the companies and parties named herein.

All other queries on rights and licenses, including subsidiary rights, should be addressed to IFC's Corporate Relations Department, 2121 Pennsylvania Avenue, N.W., Washington, D.C. 20433. International Finance Corporation is an international organization established by Articles of Agreement among its member countries, and a member of the World Bank Group. All names, logos and trademarks are the property of IFC and you may not use any of such materials for any purpose without the express written consent of IFC. Additionally, "International Finance Corporation" and "IFC" are registered trademarks of IFC and are protected under international law.

## Table of Contents

1. Country progress summary .....	1
2. Overview of policy coverage by indicators .....	3
3. Policy coverage developed .....	4
4. Policy coverage to be developed .....	7

# 1. Country progress summary – Sri Lanka



**SBN Member:** [The Central Bank of Sri Lanka \(CBSL\)](#) (member since 2016)

**SBN Working Group:** none

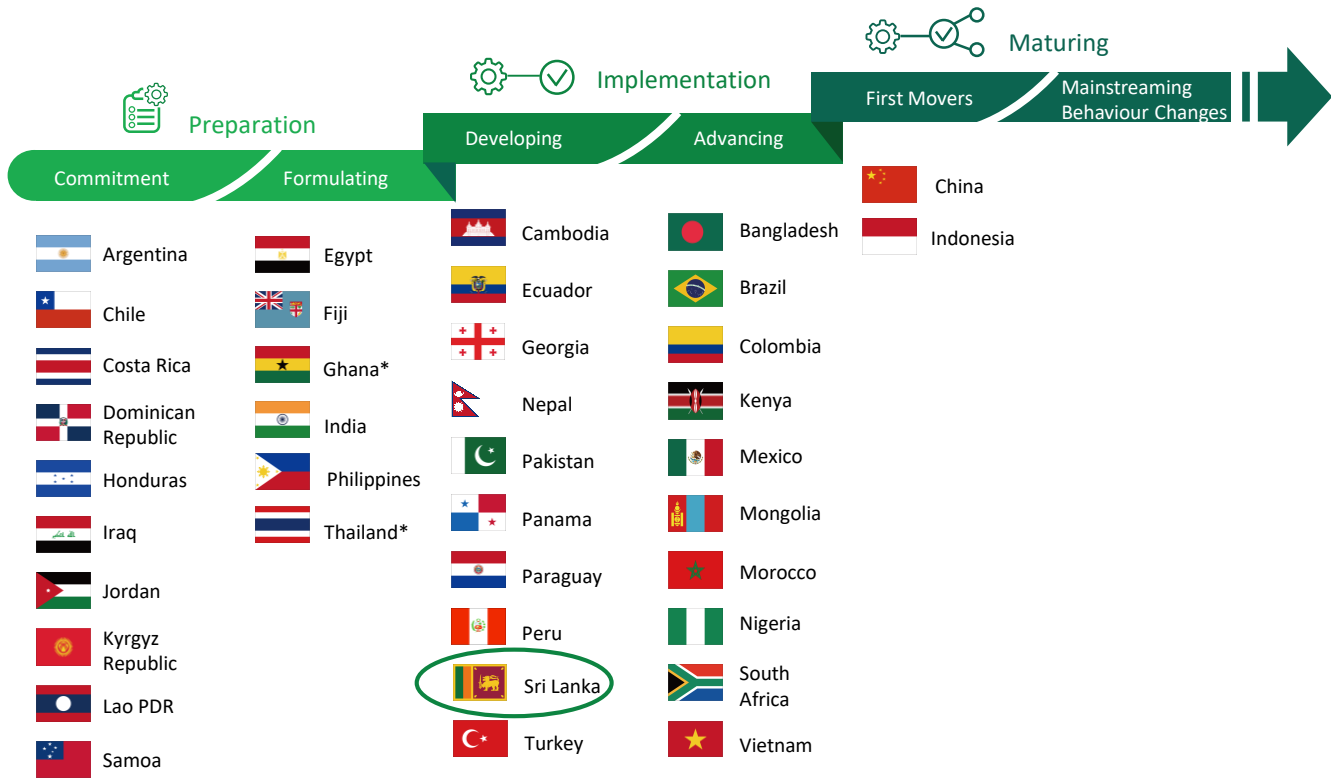
**Key milestones since 2018 SBN Report:**

- Launch of Sri Lankan Sustainable Banking Principles (Sri Lanka’s Banker Association (SLBA), 2018)
- Launch of Sri Lanka Sustainable Finance Roadmap (CBSL, 2019)
- Sri Lanka has launched its Roadmap and started implementation, thus progressing from “Formulating” under the “Preparation” stage to “Developing” under the “Implementation” stage, as indicated in the “Progression Matrix”.

**SBN and IFC role:** IFC has provided advisory services to CBSL in relation to policy development and capacity building. Through SBN, CBSL has benefited from the collective SBN knowledge base and can share its experience with other members.

**Figure 1: SBN Progression Matrix with Assessment Results<sup>1</sup>**

Assessment based on progress up to and as of June 2019<sup>2</sup>

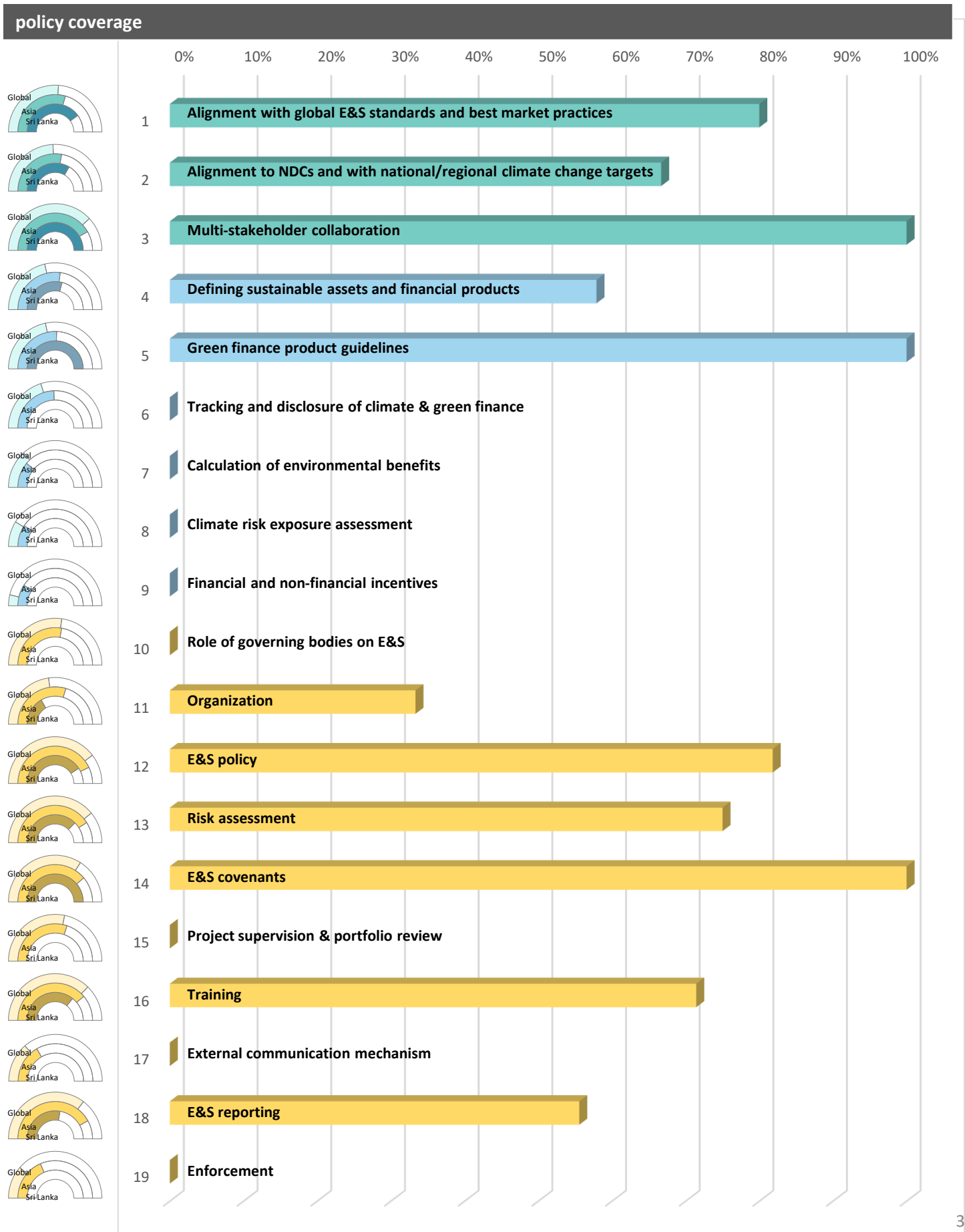


**Note:**

1. Please refer to the SBN Global Progress Report for an explanation of the Progression Matrix.

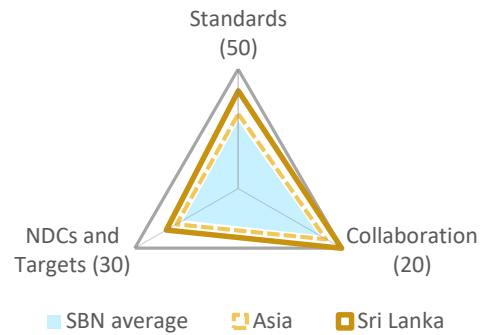
2. Ghana and Thailand launched their policies and principles in August 2019, after the cut-off date of June 2019 for this report.

## 2. Overview of policy coverage by indicators



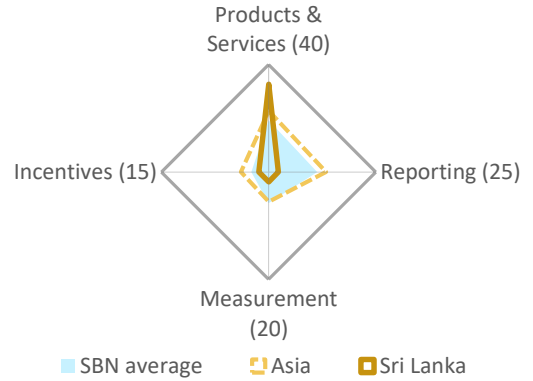
### 3. Policy coverage developed

#### Pillar I: Strategic Alignment



Indicator	Policy requirement	Reference
<b>Alignment with global E&amp;S standards and best market practices</b>		
<b>Indicator 1</b>	<p>The Roadmap for Sustainable Finance issued by CBSL in 2019 encourages FIs and regulators to adopt international E&amp;S risk management standards, such as IFC’s Performance Standards.</p> <p>The Roadmap also refers to international sustainability reporting standards (GRI, CDP) and climate finance reporting standards (TCFD).</p> <p>Both the Roadmap and the Sustainable Banking Principles refer to the UN SDGs.</p>	<p>Roadmap for Sustainable Finance in Sri Lanka (CBSL, 2019) - 3.2.2 ESG Risk Management</p> <p>Roadmap for Sustainable Finance in Sri Lanka (CBSL, 2019) - 3.2.1 ESG Disclosure - For financial institutions</p> <p>Sri Lankan Sustainable Banking Principles (Sri Lanka’s Banker Association (SLBA), 2018)</p> <p>Sri Lankan Sustainable Banking Principles <a href="https://www.sustainablebanking.lk/industry-guiding-principles">https://www.sustainablebanking.lk/industry-guiding-principles</a></p> <p>Roadmap for Sustainable Finance in Sri Lanka (CBSL, 2019) - 1.1 Background]</p>
<b>Alignment to NDCs and with national/regional climate change targets</b>		
<b>Indicator 2</b>	The Roadmap is aligned with the Sri Lanka Vision 2030.	-
<b>Multi-stakeholder collaboration</b>		
<b>Indicator 3</b>	The Roadmap has been developed through multi-stakeholder consultations with the industry, and with environmental and climate change regulators.	-

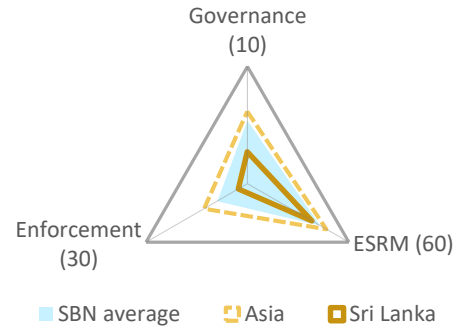
# Pillar II: Climate and Green Finance



Indicator	Policy requirement	Reference
<b>Products and services</b>		
<b>Indicator 4, 5</b>	<p>The Roadmap provides examples of green and sustainable assets. It strongly encourages the development of green bonds and refers to both the ICMA and CBI standards. It also recommends external verification of green bonds in order to increase investor confidence.</p> <p>The Roadmap not only covers debt instruments but also highlights the potential for sustainable products in areas such as leasing and insurance.</p> <p>FIs are encouraged to boost client awareness of sustainability through local promotional activities.</p>	<p>Roadmap for Sustainable Finance in Sri Lanka (CBSL, 2019) - 3.1.1 Sustainable/Green Loan</p> <p>Roadmap for Sustainable Finance in Sri Lanka (CBSL, 2019) - 3.1.2 Sustainable/green leasing</p> <p>Roadmap for Sustainable Finance in Sri Lanka (CBSL, 2019) - 3.1.5 Other sustainable/green products</p> <p>Sri Lankan Sustainable Banking Principles (Sri Lanka’s Banker Association (SLBA), 2018) - Sri Lankan Sustainable Banking Principles - Principle 7 - <a href="https://sustainablebanking.lk/industry-guiding-principles">https://sustainablebanking.lk/industry-guiding-principles</a></p> <p>Roadmap for Sustainable Finance in Sri Lanka (CBSL, 2019) - 3.1.1 Sustainable/Green loan - For Banks</p> <p>Roadmap for Sustainable Finance in Sri Lanka (CBSL, 2019) - 3.4.5 Public awareness-raising - For financial institutions</p>
<b>Climate and green investment reporting</b>		
<b>Indicator 6</b>	-	-
<b>Measurement</b>		
<b>Indicator 7, 8</b>	-	-
<b>Incentives</b>		
<b>Indicator 9</b>	-	-



# Pillar III: ESG Integration



Indicator	Policy requirement	Reference
<b>Governance of E&amp;S</b>		
<i>Indicator 10, 11</i>	-	-
<b>E&amp;S risk management</b>		
<i>Indicator 12-18</i>	<p>The Principles and the Roadmap require FIs to develop an E&amp;S policy tailored to their financial and business activities.</p> <p>They also encourage FIs to define specific E&amp;S objectives and targets. Both documents require FIs to report regularly (preferably annually) on their E&amp;S or ESG performance.</p> <p>They also recommend that FIs conduct due diligence at client and transaction levels and require that clients be categorized according to their level of E&amp;S risks.</p> <p>The Roadmap encourages the inclusion of E&amp;S covenants in legal agreements with borrowers.</p> <p>The Roadmap dedicates an entire pillar to the importance of knowledge sharing and regular training as ways to build in-house E&amp;S and sustainable finance capacity.</p>	<p>Sri Lankan Sustainable Banking Principles (Sri Lanka’s Banker Association (SLBA), 2018) - Sri Lankan Sustainable Banking Principles - Principle 1 - <a href="https://sustainablebanking.lk/industry-guiding-principles">https://sustainablebanking.lk/industry-guiding-principles</a></p> <p>Roadmap for Sustainable Finance in Sri Lanka (CBSL, 2019) - 3.2.2 ESG Risk Management</p> <p>Sri Lankan Sustainable Banking Principles (Sri Lanka’s Banker Association (SLBA), 2018) - Sri Lankan Sustainable Banking Principles - Principle 10</p> <p>Roadmap for Sustainable Finance in Sri Lanka (CBSL, 2019) - 3.6.3 For financial institutions to measure progress and impacts</p> <p>Roadmap for Sustainable Finance in Sri Lanka (CBSL, 2019) - 3.6.2 For regulators to measure progress and impacts</p> <p>Sri Lankan Sustainable Banking Principles (Sri Lanka’s Banker Association (SLBA), 2018) - Sri Lankan Sustainable Banking Principles - Principle 1 and Principle 6</p> <p>Sri Lankan Sustainable Banking Principles (Sri Lanka’s Banker Association (SLBA), 2018) - Sri Lankan Sustainable Banking Principles - Principle 1</p> <p>Sri Lankan Sustainable Banking Principles (Sri Lanka’s Banker Association (SLBA), 2018) - Sri Lankan Sustainable Banking Principles - Principle 8</p> <p>Roadmap for Sustainable Finance in Sri Lanka (CBSL, 2019) - 3.4.2 Capacity building for financial institutions</p>
<b>Enforcement</b>		
<i>Indicator 19</i>	-	-

## 4. Policy coverage to be developed

Pillar	Sub Pillar	Gaps	Areas for improvement
<b>Pillar I: Strategic Alignment</b>	Alignment with global E&S standards and best market practices	20%	➤ Requirement to make E&S policies, practices and results externally verified
	Alignment to NDCs and with national/regional climate change targets	33%	➤ Defined main climate risks for local financial sector
	Multi-stakeholder collaboration	0%	-
<b>Pillar II: Climate and Green Finance</b>	Products & services	20%	➤ Comprehensive taxonomy for green assets
	Climate & green investment reporting	100%	<ul style="list-style-type: none"> <li>➤ Requirement of report on climate/green finance flows</li> <li>➤ Requirement of report on portfolio climate risk exposure</li> <li>➤ Encouragement of public disclosure</li> </ul>
	Measurement	100%	<ul style="list-style-type: none"> <li>➤ Requirement to calculate investments' environmental benefits</li> <li>➤ Taxonomy of potential environmental impacts</li> <li>➤ Methodologies, tools, templates to measure/report impacts</li> <li>➤ Requirement to monitor climate risk exposure at portfolio level</li> <li>➤ Reference to specific climate exposure methodologies</li> <li>➤ Encouragement of mitigation steps</li> </ul>
	Incentives	100%	<ul style="list-style-type: none"> <li>➤ Incentives for green financial products/services</li> <li>➤ Financial incentives on green products/services</li> </ul>
<b>Pillar III: ESG Integration</b>	Governance of E&S	80%	<ul style="list-style-type: none"> <li>➤ FI governing bodies required to approve an E&amp;S strategy</li> <li>➤ Management to report on the E&amp;S strategy implementation to the governing bodies</li> <li>➤ FI operational bodies to report to the governing bodies on E&amp;S strategy implementation</li> <li>➤ Highlight the roles of front offices and second lines of defense</li> <li>➤ Requirement to define role competencies</li> </ul>
	E&S risk management	40%	<ul style="list-style-type: none"> <li>➤ Requirement to disclose E&amp;S policy &amp; its governance</li> <li>➤ Encouragement to site visit for high-risk transactions</li> <li>➤ Invite client engagement to implement mitigation measures</li> <li>➤ Requirement to develop process to manage E&amp;S risk during supervision</li> <li>➤ Encouragement of periodic review of E&amp;S risk at aggregate portfolio level</li> <li>➤ Training for front officers, second lines of defense, E&amp;S experts</li> <li>➤ Requirement to establish and maintain inquiry/complaints mechanism to FI's E&amp;S/ESG practices</li> <li>➤ Making E&amp;S/ESG reporting and disclosure more consistent via principles or guidelines</li> </ul>
	Enforcement	100%	<ul style="list-style-type: none"> <li>➤ Framework implementation regularly verify and information collected</li> <li>➤ Financial and/or non-financial incentives for setting up ESRM</li> <li>➤ Sanctions/penalties/warnings for non-compliance</li> </ul>

Access the SBN Global Progress Report and Country Reports at:  
[www.ifc.org/SBN2019Report](http://www.ifc.org/SBN2019Report)

