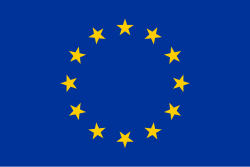
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CONSOLIDATED REPORT

From Concept to Capital: Catalyzing a Robust Green Bond Market in Sri Lanka

**IMPLEMENTED BY**

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|  |  |
| --- | --- |
| CBI | Climate Bonds Initiative |
| CSE | Colombo Stock Exchange |
| ESG | Environmental, Social and Governance |
| GHG | Green House Gases |
| GRI | Global Reporting Initiative |
| GSS | Green, Social and Sustainable |
| ICMA | International Capital Market Association |
| IMF | International Monetary Fund |
| MDB’s | Multilateral Development Banks |
| MoF | Ministry of Finance |
| NDC | Nationally Determined Contributions |
| PSBA | Policy and Situational Barrier Assessment |
| SLB | Sustainability Linked Bond |
| SPO | Second Party Opinion |

# **Executive summary**

* To achieve a transition to a net-zero economy, significant capital must be redirected towards climate solutions, encompassing both mitigation (absolute reduction of GHG emissions) and adaptation (resilience to extreme weather events). The global funding gap for climate solutions is projected to range from USD $2.7 trillion[[1]](https://cac-word-edit.officeapps.live.com/we/wordeditorframe.aspx?ui=en-US&rs=en-US&wopisrc=https%3A%2F%2Fbaastelcom.sharepoint.com%2Fsites%2FE425_EF_SriLanka_Gap_anlysis_Green_bonds_Consultants%2F_vti_bin%2Fwopi.ashx%2Ffiles%2Fe449b1edf08544f8a178dce8765a7f7b&wdpid=2570b874&wdenableroaming=1&wdfr=1&mscc=1&hid=D83C6DA1-E01A-7000-462A-C7F8B917C397.0&uih=sharepointcom&wdlcid=en-US&jsapi=1&jsapiver=v2&corrid=1fab017f-15ec-a44d-9e65-3b5b15004593&usid=1fab017f-15ec-a44d-9e65-3b5b15004593&newsession=1&sftc=1&uihit=docaspx&muv=1&cac=1&sams=1&mtf=1&sfp=1&sdp=1&hch=1&hwfh=1&dchat=1&sc=%7B%22pmo%22%3A%22https%3A%2F%2Fbaastelcom.sharepoint.com%22%2C%22pmshare%22%3Atrue%7D&ctp=LeastProtected&rct=Normal&wdorigin=Other&csc=1&instantedit=1&wopicomplete=1&wdredirectionreason=Unified_SingleFlush#_ftn1)- $6.2 trillion annually by 2030 and up to USD $7.3 trillion annually by 2050 to deliver a net-zero economy.
* This gap is expected to be bridged through a combination of public and private capital, with green, social, and sustainability bonds playing an important role. Between 2006 and 2024, these instruments have raised over USD $5.1 trillion, with green bonds in particular making up 60% of the market[[2]](https://cac-word-edit.officeapps.live.com/we/wordeditorframe.aspx?ui=en-US&rs=en-US&wopisrc=https%3A%2F%2Fbaastelcom.sharepoint.com%2Fsites%2FE425_EF_SriLanka_Gap_anlysis_Green_bonds_Consultants%2F_vti_bin%2Fwopi.ashx%2Ffiles%2Fe449b1edf08544f8a178dce8765a7f7b&wdpid=2570b874&wdenableroaming=1&wdfr=1&mscc=1&hid=D83C6DA1-E01A-7000-462A-C7F8B917C397.0&uih=sharepointcom&wdlcid=en-US&jsapi=1&jsapiver=v2&corrid=1fab017f-15ec-a44d-9e65-3b5b15004593&usid=1fab017f-15ec-a44d-9e65-3b5b15004593&newsession=1&sftc=1&uihit=docaspx&muv=1&cac=1&sams=1&mtf=1&sfp=1&sdp=1&hch=1&hwfh=1&dchat=1&sc=%7B%22pmo%22%3A%22https%3A%2F%2Fbaastelcom.sharepoint.com%22%2C%22pmshare%22%3Atrue%7D&ctp=LeastProtected&rct=Normal&wdorigin=Other&csc=1&instantedit=1&wopicomplete=1&wdredirectionreason=Unified_SingleFlush#_ftn2). This growth demonstrates the maturity, viability and scalability of these instruments in crowding-in the necessary capital to achieve net zero emissions.
* Green bonds can therefore play a key role in supporting Sri Lanka in achieving its net zero target and related NDCs. As one of the world’s 36 biodiversity hot spots, Sri Lanka’s rich natural resources and ecological diversity are increasingly threatened by climate change. The country currently faces average annual losses of USD $313 million from extreme weather events, and approximately 19 million people live in locations that are projected to become climate hotspots by 2050[[3]](https://cac-word-edit.officeapps.live.com/we/wordeditorframe.aspx?ui=en-US&rs=en-US&wopisrc=https%3A%2F%2Fbaastelcom.sharepoint.com%2Fsites%2FE425_EF_SriLanka_Gap_anlysis_Green_bonds_Consultants%2F_vti_bin%2Fwopi.ashx%2Ffiles%2Fe449b1edf08544f8a178dce8765a7f7b&wdpid=2570b874&wdenableroaming=1&wdfr=1&mscc=1&hid=D83C6DA1-E01A-7000-462A-C7F8B917C397.0&uih=sharepointcom&wdlcid=en-US&jsapi=1&jsapiver=v2&corrid=1fab017f-15ec-a44d-9e65-3b5b15004593&usid=1fab017f-15ec-a44d-9e65-3b5b15004593&newsession=1&sftc=1&uihit=docaspx&muv=1&cac=1&sams=1&mtf=1&sfp=1&sdp=1&hch=1&hwfh=1&dchat=1&sc=%7B%22pmo%22%3A%22https%3A%2F%2Fbaastelcom.sharepoint.com%22%2C%22pmshare%22%3Atrue%7D&ctp=LeastProtected&rct=Normal&wdorigin=Other&csc=1&instantedit=1&wopicomplete=1&wdredirectionreason=Unified_SingleFlush#_ftn3).
* Despite this vulnerability, the county’s NDCs and related policy responses have identified opportunities to mitigate and adapt to these changes. Given their prevalence in emerging markets – accounting for 22% of all green bond issuance - green bonds can play a catalytic role in mobilizing capital towards the local funding gap while ensuring social and economic prosperity.
* The limited issuance of green bonds has highlighted a number of structural barriers, not uncommon within a developing market context. A well-functioning local green bond market can enhance corporate funding resilience by providing access to capital beyond the traditional investor base. This will enable corporate issuers to fund the transition to a low carbon economy in the most cost-effective manner. For investors, it will provide the opportunity to develop thematic funds and increase assets under management while contributing to limiting the effects of climate change, reducing financed GHG emissions, and meeting investor net-zero commitments.
* The study on the issuance of corporate green bonds in Sri Lanka categorized barriers into the following four types (supply related, demand related, policy related, and ecosystem related) with the following key observations:

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* + The nascency of the Sri Lankan green bond market is **predominantly a function of a lack of green use of proceeds – supply related barriers emerged as the largest number of barriers (15) with 80% classified as nascent**
  + This nascency is further exacerbated by a **lack of demand by investors** given the lack of mandate-driven funds (green, thematic, ESG), demonstrated through the identification of **6 demand related barriers of which 100% were classified as nascent.**
* Policy and ecosystem related barriers are further along in their maturity, with 4 and 7 barriers identified and **50% and 43% classified as performing**, respectively.
* To position **Sri Lanka as a green finance hub within Asia,** a long list of **recommendations** for the development of green bonds has been prepared, with the objective to progressively transition the identify barriers from the nascent stage to a mature, well-established market over time. Recommendations were segmented into four categories:
  + - **Policy-related:** acknowledging the role that governments play, these recommendations provide policy and regulatory support for each of the three categories above (supply, demand, and ecosystem). They address the role of governments, ministries, and other official institutions.
    - **Supply-related:** these recommendations aim to address the core constraints faced by potential green bond issuers, such as corporations. Notably, these recommendations are designed to support the development of green projects which serve as the foundation for green bond use of proceeds.
    - **Demand-related:** these recommendations are designed to address the friction points felt by potential green bond investors as identified during stakeholder consultations. Specifically, they address investor awareness, capacity building, and technical and economic support.
    - **Ecosystem-related:** these recommendations have been developed to support the various green bond ecosystem providers that play a critical role in the supplementary (indirect) activities of the green bond market. Three key areas are addressed (1) capacity building, (2) market performance, and (3) sustainable finance ecosystem development.

**A yellow dots on a black background

AI-generated content may be incorrect.****KEY-OBSERVATIONS AND MARKET FEEDBACK**

Sri Lankan stakeholders collectively expressed a high level of desire, enthusiasm, and engagement towards the development of a corporate green bond market in Sri Lanka. Furthermore, they acknowledge the potential to catalyze its growth and to tailor its development to the local market context and realities. While several challenges were observed, most are typical in other peer countries and have potential to be overcome. Stakeholders also display a desire to pursue a collaborative approach to building the market to its full potential by working together and leveraging each institution’s strengths.

The study highlights the following key issues:

* The barriers outlined are neither drastic, nor structural in nature, that would prevent Sri Lanka from developing a green bond market in a similar manner as peers (emerging and market size) have.
* Benchmarking the barriers needs to be pursued not only to international standards, but also with regional standards and transaction precedence in Asia as it deemed essential to account for the unique characteristics of the local market (emerging market & bond market size), the country’s exposure to climate change effects, and its key sustainability themes and focus areas (resilience & adaptation, renewable energy, sustainable agriculture).

The priority should be to extract the key elements necessary for developing a functioning green bond market, ones that appear to be critical to shifting the Sri Lankan market status from “Nascent” to “Mature”. In this regard, refining science-based technical criteria made available by international bodies such as Climate Bonds Initiative (CBI) can be considered less urgent at the current stage. Thus, focus should be put on **providing issuers** with a variety of benefits such as:

1. the increased resilience of borrowing programs;
2. the access to additional capital over and above their traditional investor base;
3. a more symbiotic alignment between funding with corporate strategy; and
4. the ability to fund a transition to a low carbon economy in the most cost-effective manner.

From an investor perspective, a developed green bond market can provide them with a range of benefits including: (1.) the ability to develop thematic funds and increase assets under management; (2.) reduce financed fossil fuel emissions to achieve climate commitments; and (3.) to contribute to limiting the effects of climate change which reduces warehousing of climate risk in portfolios and contributes to overall economic resilience. The attractiveness of a green bond market to an investor, however, is dependent on several factors, notably related to the market’s liquidity and depth, diversification characteristics across sector, issuer, term, and sustainability pillars.

**SUMMARY OF KEY BARRIERS**

Applying a 360° approach, the four Policy and Situational Barrier Assessment (PSBA) categories enlisted in the study include:

* Policy-Related
* Demand-Related
* Supply-Related
* A diagram of a policy

  AI-generated content may be incorrect.Ecosystem-Related

To effectively rank and contextualize the identification of barriers, enabling market participants to direct their efforts to the most immediate, pressing, and rewarding outcomes, the following classification system was applied:

1. **Nascent**: Nascent barriers are defined as those abilities or stakeholders that have yet to be mobilized.
2. **Performing**: A performing status indicates groups who have acknowledged the desire to participate in the green bond value-chain and who have initiated action, but who have yet to achieve a mature level of development.
3. **Mature**: A mature barriers status refers to stakeholders or market areas that are already optimized from a development perspective, suggesting the additional resource allocation and focus would yield modest marginal progress.
4. **‘Unknown unknowns’**: Lastly, it is important to consider the general nascent status of the Sri Lankan market and the early stages of its learning curve, which implies that certain barriers may not have been raised in the stakeholder consultations (‘unknown unknowns'). These barriers, nonetheless, are addressed throughout the PSBA and the recommendations. In other words, the PSBA does not only address the issues raised during stakeholder consultations but also delves into important elements that should transcend the stakeholder consultations.

## **POLICY RELATED**

Although policy-related instruments are indirect by nature, they are crucial in stimulating green investment at the corporate level, and therefore catalytic in stimulating the use of the proceeds needed to serve as the eventual supply of green bonds. This has been witnessed throughout green bond markets across the globe, as observed by the ongoing oversubscription of transactions and the resulting persistent ‘greeniums’ witnessed in the primary and secondary markets. Cumulative green bond issuance to date has exceeded USD$3.2T (63% of the total sustainability debt market) in over 29,000 transactions[[1]](#footnote-2).

It has been acknowledged and observed across jurisdictions that the strength of policy-related instruments and initiatives can act as a powerful stimulus for green investment. Given the large capital investments required to green corporate infrastructure, companies may be more passive at times when they perceive policy signals to be weaker, and more active when policies are more ambitious, bolder, and longer term. For example, an IMF study found that a significant increase in the number of climate policies tends to boost green patent filings, as a proxy for green innovation and capital expenditure, by 10% over 5 years. The study also found that doubling the number of green patent filings can increase Gross Domestic Product (GDP) by 1.7% after 5 years compared to a baseline scenario[[2]](#footnote-3). Sri Lanka adopted its National Environmental Policy and National Environmental Action Plan 2022-2030 and launched its Climate Prosperity Plan in 2022. Supported by the Country’s NDC’s and Green Finance Taxonomy, these initiatives lay a strong foundation for the implementation of specific policy support instruments to enhance the adoption of green bonds as a funding tool in achieving the Country’s ambitions.

**Figure 1. Key Components to Stimulate Green Bond Policy**

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## **SUPPLY RELATED**

Supply-related barriers were identified on the basis that certain inherent friction points exist within the activity stream of a corporate seeking to successfully bring a green bond to market that are within their realm of control. In this category, required corporate activities have been dissected to ensure each step along the issuance process.

**Figure 2. Key Components to Stimulate Green Bond Supply**

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## **DEMAND RELATED**

The segmentation of demand-related barriers is proposed with the intention of addressing the various investor-centric related barriers, that if alleviated, would result in unlocking a greater amount of green, environmental and climate related investments. The barriers addressed relate to the process of buying and selling green bonds both in the primary market through new green bond issuance, and in the secondary market. The development of the green investor base will result in several benefits. For example, it could lead to a potential funding benefit for green bond issuers, who would thereby be able to identify a monetary benefit for undertaking what is perceived to be a labor-intensive exercise by offsetting the implicit (company staff time) and explicit (second-party opinion) costs to issuers. An optimized buyer base can lead to many other ancillary benefits over the medium to long-term that enhance the depth and breadth of the market, and hereby for example, reduces slippage costs resulting from a lack of liquidity when investors attempt to affect larger transaction size. Over the long-term, a developed green bond buyer base could potentially enable Sri Lanka to one day possess a green bond curve that acts as the reference curve for all green bond issuers to issue with greater price discovery, and at a potentially lower cost of funds.

**Figure 3. Key Components to Stimulate Green Bond Demand**

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## **ECOSYSTEM-RELATED**

The segmentation of ecosystem elements and stakeholders, despite being arm’s length to a green bond transaction, were deemed to be nonetheless important for the scaling of a successful corporate green bond market over the long term. These elements, although indirectly related, can provide substantial benefit through knowledge building and transfer, capacity building, advocacy, research and awareness raising.

**Figure 4. Key Components to Stimulate Green Bond Ecosystem**

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**The results of the policy and situational barriers assessment per category and key takeaways from the study are available in Annex 1.**

# **RATING SYSTEM**

Recommendations have been prioritized using a weighted average of the various elements evaluated, which include: benefits (2x), time horizon (1.5x), costs (1x) and risks (1x).

The values used to evaluate each criterion, presented in Table 1 below, allowed for a quantitative analysis of the results. The results have been classified on a traffic light scale, where the maximum score is 16.5, indicated in green, and the minimum is 5.5, indicated in red. This visual classification facilitates the interpretation of the results and the prioritization of **recommendations.**

**Total Value Color Code**

**Max. 16.5**

**Min. 5.5**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Table 1. System for rating and prioritizing recommendations**   |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | | **Weight per element evaluated** | | | | | | | | | | **2X** | | **1.5X** | | **1X** | | **1X** | | | **Benefit** | | **Time horizon** | | **Costs** | | **Risks** | | | 3 | High | 3 | Short Term | 3 | Low | 3 | Low | | 2.5 | Medium-High | 2.5 | Short to Medium Term | 2.5 | Low-Medium | 2.5 | Low-Medium | | 2 | Medium | 2 | Medium Term | 2 | Medium | 2 | Medium | | 1.5 | Low-Medium | 1.5 | Medium to Long Term | 1.5 | Medium-High | 1.5 | Medium-High | | 1 | Low | 1 | Long Term | 1 | High | 1 | High | |

# **RECOMMENDATIONS**

## **Priority Recommendations**

The following preliminary priority reocmmendations have been identified:

1. Create a **pool of funding assistance for development of green bond programs**
2. Create a **green bond platform** to warehouse relevant documentation, assessments and information related to green bond issuance
3. Develop a national **green bond awareness campaign**
4. Develop an **investor capacity building program**
5. Provide **impact reporting guidance** and assistance to issuers
6. Develop a **capacity building program for investment banks**

## **SUPPLY-RELATED RECOMMENDATIONS**

Supply-related recommendations aim to address the friction points that currently constrain the issuance of green bonds. Notably, the suggestions aim to facilitate the advancement of green projects which form the underlying use of proceeds for green bond instruments. The recommendations cover both recommendations for direct participants (corporate issuers, SPOs, listing venues, etc.) as well as indirect participants (trade associations, governments, multilateral development banks (MDB’s), etc.). As illustrated in **Figure 5**, the establishment of climate commitments and credible transition strategies serve as a foundation for determining the types of green projects issuers may seek to develop. The development of these projects is facilitated through support received from industry trade associations, engineering firms, governments, and other technical assistance providers to ensure both the technical feasibility and alignment to Sri Lanka’s Green Finance Taxonomy. Following the identification and development of the underlying green use of proceeds, investment banks, second party opinion providers, and credit rating agencies assist issuers in establishing green bond frameworks. Finally, the issuance is supported by the listing rules and databases established by the Colombo Stock Exchange (CSE). The recommendations in this section focus on unlocking barriers faced by each type of participant in the development of a robust supply of green bonds.

**Figure 5. Green bond supply process by stakeholder involvement**

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**Table 2. Supply-related**

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Stakeholder Type** | **Name** | **Time Horizon** | | **Benefits** | | **Costs** | | **Risks** | | **Value** |
| Corporates | Blue Finance: Develop the issuance and uptake of blue bonds through awareness building | Short Term |  | High |  | Low |  | Low |  |  |
| Corporates | Local and International Marketing of Green Bond Program and Corporate Climate Change Objectives | Short Term |  | High |  | Low |  | None |  |  |
| Corporates | Peer Learning: promote International and regional collaboration between Sri Lankan issuers, MDB’s, and other South and South-East Asian issuers | Short Term |  | High |  | Low |  | None |  |  |
| Corporate Issuers | Align green bond structuring practices with global gender finance guidance and frameworks to ensure a gender lens is applied to green projects where applicable | Short Term |  | High |  | Low |  | Low |  |  |
| Government | Leverage partnerships with MDBs to strengthen gender-responsive finance policies | Short Term |  | High |  | Low |  | Low |  |  |
| Financial Institutions | Publication of Sustainability Bond Framework & Issuance of Green Bonds | Short Term |  | High |  | Low to Medium |  | Low |  |  |
| Government of Sri Lanka; CSE; SEC; The institute of chartered Accountants of Si Lanka; International Chamber of Commerce; Banking associations; MoF; GRI; IFRS Foundation | Pursue efforts to mainstream ESG reporting through policy-level requirements in collaboration with current Stakeholders | Short Term |  | High |  | Medium to High |  | Low |  |  |
| Engineering Firms Industry & Trade Associations (BOI) | Promote and facilitate the collaboration between the engineering firms and trade associations to increase the knowledge of green technical materials, sciences, electric transportation, and green investment opportunities | Short to Medium Term |  | High |  | Low |  | None |  |  |
| Corporates | Develop a green and environmental product portfolio consistent with international standards (ICMA Labelling Spectrum: GSS, SLB) | Short to Medium Term |  | High |  | Low |  | Low |  |  |
| MDB’s | Leverage Partnerships with the MDB and BDB Community to Establish Issuance Programs in Sri Lanka | Short to Medium Term |  | High |  | Low |  | None |  |  |
|  |  |  |  |  |  |  |  |  |  |  |
| Corporates | Establishment of Corporate-level Climate Commitments and Credible Transition Plans | Short Term |  | High |  | Low |  | Medium |  |  |
| Corporates | Develop Gender Finance Label | Short Term |  | High |  | Medium |  | Low |  |  |
| Corporate Industry & Trade Associations | Engage with industry and tradeshow organizations to attend, sponsor, and speak at events. | Short Term |  | High |  | Medium |  | None |  |  |
| Issuers; ESG Ratings Providers; Regulators; CSE | Pursue an expanded ESG rating’s coverage universe in Sri Lanka | Medium Term |  | High |  | Medium |  | Low |  |  |
| Assurance Providers | Develop assurance capacity (Second Party Opinion) | Short to Medium Term |  | Medium |  | Low |  | None |  |  |
| MDBs | Provide technical assistance for gender-responsive green bond issuance. | Short Term |  | Medium |  | Low |  | Medium |  |  |
| Start Ups Incubators Foundations Universities Think Tanks | Develop clean tech ecosystem | Medium to Long Term |  | High |  | Low to Medium |  | Low to Medium |  |  |
| Listing Venues | Leverage dual listing opportunities when benefits outweigh costs | Short to Medium Term |  | Medium |  | Low to Medium |  | Low |  |  |
| MDBs | Provide financing to local banks for building gender-focused portfolios. | Medium Term |  | High |  | Medium |  | Medium |  |  |
| Government | Lower foreign currency borrowing constraints (CBSL) for green bonds to encourage more issuance and enable Sri Lankan corporates to benefit from more developed green investors pools such as in Europe. The ability to raise funds is currently constrained by credit rating and capital adequacy requirements. | Medium Term |  | High |  | Medium |  | Medium |  |  |
| Government institutions | Develop mandatory gender-disaggregated reporting guidelines for bond issuers | Medium Term |  | Medium |  | Medium |  | Low |  |  |
| Government | Government green and climate incentives: provide incentives for the investment in CAPEX for the development of green projects such as subsidies, tax rebates, grants, and other non-monetary | Medium to Long Term |  | High |  | Medium to High |  | Medium |  |  |
| Governments Financial Institutions | Provide financial support and incentives to products targeting women-led businesses and social enterprises | Medium to Long Term |  | High |  | Medium to High |  | High |  |  |

## **DEMAND-RELATED**

Demand-related recommendations are designed to address key friction points that currently constrain the demand for green bonds, particularly the lack of awareness, capacity, and support necessary for the successful implementation of green bond purchasing programs and portfolios. These recommendations target both direct participants (investors, listing venues etc.) as well as indirect participants (financial institutions, trade associations, investment banks, governments, MDBs, etc.). As illustrated in **Figure** 6 below, the establishment of investor-level climate commitments and the formulation of credible portfolio transition plans are essential for implementing a coherent green bond allocation strategy. Investors can receive support in this endeavor through collaboration with industry associations such as the Net Zero Asset Owners Alliance and Net Zero Asset Managers Initiative (as of April 2025, no Sri Lankan-based investors have aligned to these associations). These commitments, in turn, will be reinforced by a range of capacity-building efforts including direct training programs and broader industry support. Additionally, government incentives and policies designed to encourage the purchase of green bonds will further bolster investor efforts. Annual allocation and impact reporting will serve as a critical mechanism for tracking the performance of green bonds and providing transparency on their environmental and social impacts, further demonstrating the bond’s attractiveness. The recommendations presented in this section focus on addressing the specific barriers faced by each type of stakeholder in the development of a robust demand for green bonds, both locally and internationally.

**Figure 6. Green bond demand process by stakeholder involvement**

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**Table 3. Demand-related**

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Stakeholder Type** | **Name** | **Time Horizon** | | **Benefits** | | **Costs** | | **Risks** | | **Value** |
| Investment Banks; Issuers; MDB’s; Service Providers; CSE | Develop green bond investor base | Short Term |  | High |  | Low |  | Low |  |  |
| Investors | Support internal capacity building of skills and abilities to develop sustainable investing strategy | Short Term |  | High |  | Medium |  | Low |  |  |
| Investors | Development of a marketing Campaign | Short Term |  | High |  | Medium |  | Low |  |  |
| MDBs | Solicit MDB’s to provide anchor and lead orders for Sri Lankan green bond issuance | Short Term |  | High |  | Medium |  | Low |  |  |
| Investors | Development of reporting standards and capabilities | Short Term |  | High |  | Medium |  | Medium |  |  |
| MDBs | Support initial gender bond issuances in Sri Lanka | Short Term |  | High |  | Medium |  | Medium |  |  |
| Financial Institutions | Establish green bond funds within Treasury (reserves management) | Short Term |  | Medium |  | Low |  | Low |  |  |
| Financial Institutions | Influence the Creation of Green/Impact Bond Funds in Asset Management Division | Short Term |  | Medium |  | Low |  | Low |  |  |
| Listing Venues | Columbo Stock Exchange to develop listing rules and host a database for uploading green bond documents (Framework, SPO, ESG Ratings) for centralized due diligence | Short to Long Term |  | High |  | Medium |  | Low |  |  |
| Investors | Engage with international green bond forums | Short to Medium Term |  | Medium |  | Low |  | Low |  |  |
| Government; Investors; Issuers; Service Providers; Financial Institutions; Investment Banks | Create a green bond efficiency platform to enhance the due diligence process for investors by warehousing relevant documentation and information related to green bond issuance such as issuer frameworks, SPO’s, issuer profile, ratings, etc. | Short Term |  | Medium |  | Medium |  | Low |  |  |
| Investors | Promote the Establishment of Asset Owner and Asset Manager Climate Commitments (Net Zero Asset Owners Alliance, Net Zero Asset Managers Initiative, others) | Short Term |  | Medium |  | Low |  | Medium |  |  |
| Investors | Development of Reporting and Abilities | Short to Medium Term |  | Medium |  | Low to Medium |  | Low |  |  |
|  |  |  |  |  |  |  |  |  |  |  |
| Government | Implementation of a guarantee mechanism to offset the effect of a high yield country-level credit rating | Medium Term |  | High |  | Medium |  | Medium |  |  |
| Central Bank | Green Bond Objectives for Reserve Management (CBSL) | Medium Term |  | Medium |  | Low |  | Low |  |  |
| Financial Institutions Investment Banks | Promote the Benefits of Investing in Green Bonds Through Marketing Campaigns | Medium Term |  | Medium |  | Medium |  | Low |  |  |
| Government | Development of incentives for the investment in green bonds | Medium Term |  | High |  | High |  | High |  |  |

## 

## **ECOSYSTEM-RELATED**

Ecosystem-related recommendations aim to foster the creation of a collaborative, economy-wide network that supports the entire green bond value chain in order to unlock capacity building, market performance, and sustainable finance ecosystem development, ultimately contributing to the growth of a robust green bond market as illustrated in **Figure 7**. **Capacity building** initiatives include the integration of sustainable finance topics into university-level curriculum designed to educate students across various disciplines – such as engineering, business, law, and environmental sciences – on the development and implementation of green projects within the Sri Lankan context. Industry associations and trade organizations also play a pivotal role in capacity building by offering professional certifications and advanced learning opportunities tailored to specific sectors and trades. Similarly, MDBs can contribute by sharing insights drawn from previous experiences, thereby providing leadership in sustainable finance. Further, listing venues and investment banks play a key role in **market performance** and efficiency. Listing venues like the CSE facilitate green bond issuance by providing listing rules and aggregating issuance data and documentation in order to streamline the due diligence process for investors. Additionally, investment banks support both issuers and investors through the establishment of dedicated sustainable finance transaction teams, by providing market research, developing roadshow capabilities, and providing market liquidity and trading capacity. Finally, a broad range of stakeholders can contribute towards **sustainable finance ecosystem development** and clustering in Sri Lanka, explored further in this section.

**Figure 7. Green bond ecosystem-related activities by stakeholder**

A screenshot of a computer screen

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**Table 4. Ecosystem-related**

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Stakeholder Type** | **Name** | **Time Horizon** | | **Benefits** | | **Costs** | | **Risks** | | **Value** |
| MDBs | Work with MDB’s to support local capacity building, technical advisory, green bond framework subsidies | Short Term |  | High |  | Low |  | Low |  |  |
| Investment Banks | Develop domestic and international issuer marketing and roadshows | Short Term |  | High |  | Low |  | Low |  |  |
| Universities | Development of university curriculums across engineering, sciences, technology, business, etc. | Short Term |  | High |  | Medium |  | Low |  |  |
| Industry Associations; CA Sri Lanka; CMA Sri Lanka | Development of industry association curriculum and capacity building including professional development certificates (lawyers, accountants, etc.) | Short Term |  | High |  | Medium |  | Low |  |  |
| Investment Banks | Develop internal sustainable finance teams to advise clients on development of frameworks | Short Term |  | High |  | Medium |  | Low |  |  |
| Investment Banks | Develop green bond trading capabilities to promote market liquidity (market making) | Short Term |  | High |  | Medium |  | Low |  |  |
| Corporates; Investors; Investment Banks; Government; Trade Associations; Listing Venues; MDB's | Increase internship and industry placements for undergraduate and graduate students to expose them to sustainable development opportunities. | Short Term |  | Medium |  | Low |  | Low |  |  |
| Government | Participate in international sustainable finance forums and pursue other international collaboration opportunities | Short Term |  | Medium |  | Low |  | Low |  |  |
| Trade Associations | Mobilization of trade associations to cultivate technical knowledge and share best practices | Short Term |  | Medium |  | Medium |  | Low |  |  |
| Investment Banks | Provide green and thematic bond research | Short Term |  | Medium |  | Medium |  | Low |  |  |
| Listing Venues | Development of a sustainable finance ‘cluster’ led by BOI and CSE to establish Sri Lanka as a green finance hub in South and South-East Asia | Medium to Long Term |  | High |  | Medium |  | Low |  |  |
| Universities | Establishment of a University Research Centre or think tanks on sustainable finance | Medium to Long Term |  | Medium |  | Medium |  | Medium |  |  |

## 

## **POLICY-RELATED**

Policy-related recommendations aim to acknowledge the role of governments and agencies in the implementation of policies and regulations to support direct participants – issuers and investors – in their ability to generate and invest in green assets, and to support the broader ecosystem in ensuring an efficient green bond market. As illustrated in **Figure** 8, the government and relevant ministries (including but not limited to the Ministry of Finance , Planning, and Economic Development and the Ministry of Environment) can play a catalytic role such as (1) supply-side: unlocking the development of green use of proceeds through environmental project incentives; providing subsides for the implementation of green bond frameworks; providing economic incentives for the issuance of green bonds; becoming issuers of green bonds to fund green government projects (2) demand-side: supporting investors in capacity building; providing economic incentives for the purchase of green bonds (3) ecosystem: elevating Sri Lanka’s green bond strategy on international platforms; providing technical support and expertise; and (4) policy: conducting an annual review of policies and regulations including the sovereign Green Finance Taxonomy; developing blue and gender bond standards; mandating corporate reporting of environmental and gender topics; and establishing country-level sectoral targets and transition strategies for the achievement of net zero emissions.

The Central Bank also plays an important role in ensuring market growth and stability. The Central Bank can (1) support the demand for green bonds by integrating green bond mandates into monetary policy and reserve management, (2) provide regulatory and supervisory support for financial institutions, (3) oversee the implementation of the sustainable finance taskforce, (4) strengthen green bond market infrastructure, (5) provide capacity building and raise awareness, (6) integrate sustainable finance within broader financial stability goals, and (7) play a leadership role in international policy coordination.

**Figure 8. Green bond policy-related activities by stakeholder**

A diagram of a supply chain

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**Table 5. Policy-related**

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Stakeholder Type** | **Name** | **Time Horizon** | | **Benefits** | | **Costs** | | **Risks** | | **Value** |
| Government | Inter-departmental collaboration: reinforce collaborations between various government departments and delegate Monitoring, Reporting Verification systems’ initiative to research centers and consulting private stakeholders | Short Term |  | High |  | Low |  | Low |  |  |
| Governmental agencies | Develop blue bond policies and existing frameworks’ awareness | Short Term |  | High |  | Low |  | Low |  |  |
| Government Owned Corporations and State-owned pension funds | Establish sustainable finance presence | Short Term |  | High |  | Medium |  | Low |  |  |
| Governmental agencies | Complete the existing policy package by tax incentives | Short Term |  | High |  | Medium |  | Low |  |  |
| Government institutions | Integrate gender and social inclusion criteria into the Green Finance Taxonomy (GFT) | Short to Medium Term |  | High |  | Low |  | Medium |  |  |
| Ministry of Environment | Establishment of a technical advisory committee for green finance | Short to Long Term |  | High |  | Low to Medium |  | Low |  |  |
| Government | Capacity building across ministries associated with green financing to support the public sector in their learning curve and journey to achieve a strong link between the Country's sustainability objectives and its capital flows | Short Term |  | Medium |  | Low |  | Low |  |  |
| Central Bank | Oversee task force on sustainable finance | Medium Term |  | High |  | Medium |  | Low |  |  |
| Central Bank | Mobilize investment banking community to capacity build on sustainable finance | Short to Long Term |  | High |  | Medium |  | Low |  |  |
| Ministry of Environment | Establish targets by sector alongside credible transition plans with clear policy to incentivize domestic and foreign investment | Short to Long Term |  | High |  | Medium |  | Low |  |  |
| Central Bank | Play a governance and oversight role for local financial institutions | Short to Long Term |  | High |  | Medium to High |  | Low |  |  |
| Government | Strengthen regulatory alignment with globally accepted gender principles such as WEPs | Medium Term |  | High |  | Low |  | High |  |  |
| Government | Mandate gender-disaggregated reporting for bond issuers | Medium Term |  | Medium |  | Medium |  | Low |  |  |
| Ministry of Finance | Play a leadership role by issuing green bonds | Short to Long Term |  | High |  | High |  | Medium to High |  |  |
|  |  |  |  |  |  |  |  |  |  |  |
| Government | Conduct annual reviews of country-Level sustainable finance taxonomy and other policy documents by the task force | Long Term |  | Medium |  | Medium |  | Low |  |  |

## **ANNEX 1: POLICY AND SITUATIONAL BARRIER ASSESSMENT RESULTS AND KEY TAKEAWAYS**

|  |  |  |  |
| --- | --- | --- | --- |
| **PSBA categories** | **Sub-categories** | **Status** | **Key takeaways** |
| **Policy-related** | Green and Environmental | **Performing** | * Overall, the policy package in Sri Lanka represents a reasonably comprehensive framework with notable strengths, such as good coordination with industrial actors for the implementation of the Nationally Determined Contributions. * On the other hand, given that the quantification of needs has only recently entered an operational phase, it is understandable that some of the stakeholders interviewed expressed a lack of capital mobilization and foreign investment. Another issue is the current lack of tax incentives that are or have been in other counties a key-driver of green consumption and investment, as for example, in the Transport sectors in the European Union or in India. |
| Gender and Social Inclusion | **Nascent** | * Sri Lanka’s Green Finance Taxonomy currently focuses on environmental objectives but lacks explicit integration of gender and social inclusion, which limits its appeal to impact investors. * The Central Bank of Sri Lanka (CBSL), with support from the IFC, is exploring the integration of social inclusion parameters into the GFT, signaling an effort to align with global sustainable finance standards. |
| Blue Finance | **Nascent** | * A barrier remains in the issuance of blue thematic bonds in Sri Lanka, creating an opportunity for issuers to build on international standards to develop the domestic blue bond market in an efficient manner. * This barrier can be addressed through greater awareness and capacity building around the types of blue projects included in Sri Lanka’s Green Finance Taxonomy, as well as the international standards that can be used to support the issuance of blue bonds |
| Government support | **Performing** | * While there are significant measures taken by market Authorities and Government, such as the implementation of listing rules for green, social, and sustainability bonds the current level of policy support could be expanded to include best practices from other countries. |
| **Supply-related** | Traditional debt issuance fundamentals | **Nascent** | * Some traditional barriers identified are fleeting in nature and will naturally self-correct such as the small number of issuers as well as liquidity and diversification barriers as the market matures. While others, such as considerations around the high cost of borrowing, country credit rating, and low marketability will require a more coordinated and prolonged effort by stakeholders to build the appeal and efficiency of the traditional market and pave the way for substantial green bond issuance in the future. |
| Corporate Climate Change Commitments | **Nascent** | * A more widespread adoption of Science Based Targets (SBT’s) with a diversification across sectors will go together to attract the institutional investor (pensions fund, insurance company, central bank, asset manager, mutual fund, endowment, foundation) community. * Although certain SBT’s have been set in motion, the universe of targets across the country remain limited |
| Corporate Climate Change Disclosures | **Nascent** | * Despite significant and strategic decisions from national stakeholders or professional associations to approximate the best international practices, climate change statements seem insufficiently widespread to allow the identification by financial actors of the green needs that could be financed through market operations. * The current framework related to climate strategy reporting has a significant potential for improvement if adequate means are dedicated to disseminating the reporting frameworks amongst stakeholders. |
|  |  |  |
| Corporate ESG Ratings | **Nascent** | * While sustainability reporting has evolved positively and the market holds a promising stance, there is still a need for sustainable finance market improvements to support the emergence of ESG asset management firms and the creation of specialized funds. The delay of the CSE ESG index project to 2026 also indicates that additional steps are necessary before the rise of dedicated ESG investors can be seen. * From a green bond barrier perspective (the green bond products can be considered as subcategories of the larger ESG investment universe) this criterion can be considered nascent, but close to performing, given the significant initial engagement of some pioneering companies. |
| Issuance Standards and Guidelines | **Mature** | * Thanks to the replication of international best practice and the non-creation of a specific national guidance on green bonds, the available framework is advanced and flexible, but its potential and the respective benefits of these different standards may not yet be understood. * Knowledge barrier remains among key stakeholders (issuers and investors) |
| Second Party Opinion (SPO) Capacity | **Nascent** | * Capacity building at local level for SPO-related services is essential to bring down additional expenses linked to green bonds and thereby make the corporate green bond market an attractive alternative to both investors and issuers. Local audit firms have begun the process linking with their global audit networks. * It is important that more firms at the local level, including the local partners of international rating agencies, build-up capacity to provide SPO services and bring the cost down further through local competition. |
| Green Bond Certifications & Verifications | **Nascent** | * Overall, the importance of this issue has been adequately captured. Third-party verifiers have been also rightly identified as decisive players in the green bond ecosystem market. The CSE requires that issuers appoint an independent external verifier prior to issuance to assure that the bond aligns to the ICMA standards. The issuer must disclose this Independent Assurance Statement Nevertheless, this issue is less decisive for emerging markets compared to mature green bonds markets. Although nascent in adoption, this criterion is not viewed as a significant barrier today that would considerably prevent the market from developing. |
| Listing Venues | **Mature** | * CSE is providing green bond listing requirements for onshore issuance * In the event a Sri Lanka based corporate bond issuer had a need to issuer offshore, there are several listing venues who could offer listing services. |
| Funding Support for Framework-Related Expenses & Incentives | **Performing** | * Financial assistance from international agencies like IFC, GGGI is available and can prove to be critical to face the additional expenditure due to the compliance aspects * Other Stakeholders, like ADB, can help bridge the knowledge barrier and enhance the credibility of the issuance by participating as investors. * Green bond issuance would also benefit from increased levels of government incentives to decrease costs for issuers |
| Allocation and Impact Reporting Capabilities | **Nascent** | * Global audit firms have realized the need to build local capacity to provide such service at a lower cost. They are in the process of working together with their international partners in building internal capacity. * Lack of capacity at local level is a critical issue and needs to be addressed to reduce additional expenses and accelerate fund raising through the green bond market. |
|  |  |  |
| Gender-disaggregated metrics barrier | **Nascent** | * Sri Lanka’s green bond framework does not require the inclusion of gender-disaggregated metrics to measure the social impacts of bond proceeds, limiting transparency and reducing investor confidence. This barrier is currently assessed as nascent, indicating the need for action to integrate gender-disaggregated metrics into the reporting framework. Doing so would position Sri Lanka as a more inclusive and competitive player in the sustainable finance market. |
| Supply of Green Use of Proceeds | **Nascent** | * Issuers do not possess adequate knowledge to identify projects and capture the benefits comprehensively and therefore require guidance and assistance in this respect. * There are barrier in accessing reliable data sources, availability of adequate data, and knowledge in analyzing such data, necessary for quantification of benefits. |
| Diversification of Green Use of Proceeds | **Nascent** | * Efforts are still needed to diversify beyond solar or windfarm projects and to encompass other emerging thematic interests like circularity, nature-based solutions, Climate adaptation. |
| Green and Environmental Product Portfolio | **Nascent** | * Segmentation and diversification of “green” portfolios according to various needs, objectives and characteristics have yet to be established. |
| Capacity Building for Gender Inclusion | **Nascent** | * The need for structured, gender-focused capacity building and training makes at this early-stage underscores |
| Development of Blue and Gender Thematic Labels | **Nascent** | * Despite the recent update related to blue bonds projects in the listing rules, additional effort would be required in terms of capacity building and raising awareness, especially about the gender aspects, to ensure an effective launch of this kind of bonds. * Therefore, this barrier is transitioning to performing, thanks to the late amendments made about blue bond issuances. |
| **Demand-related** | Investor Base | **Nascent** | * A key barrier identified is the lack of breadth and depth of the domestic investor base as it relates to green bond demand (dedicated pool of green capital to demonstrate demand and catalyze issuance) * Further, there is a lack of collaboration between the issuer and investor community. Proactive engagement of the investor base is necessary for developing successful green bond programs as it allows for engagement and alignment between supply and demand early in the issuance process. * Lastly, given the nascent stage of the green bond market, consultations have identified a reluctance from investors to accept a ‘greenium’ on green bond issuances, a characteristic that has emerged, although varies in magnitude, in international markets. |
| Awareness of Green and Thematic Bonds | **Nascent** | * Still few investors are familiar with the meaning and functioning of the green label. * The relation between an investor’s financed fossil fuel emissions and their climate change commitments and the potential impact of climate risks on portfolios are not yet perceived. * This barrier can be alleviated with an effective stakeholder awareness campaign. |
| Investor Climate Commitments | **Nascent** | * Limited awareness within the country about climate and net-zero commitments do not favor investments to finance decarbonization projects |
|  |  |  |
| Technical and Professional Capabilities | **Nascent** | * Still few investors are familiar with the meaning and functioning of the green label. * The relation between an investor’s financed fossil fuel emissions and their climate change commitments and the potential impact of climate risks on portfolios are not yet perceived. |
| Green Bond Incentives | **Nascent** | * A coordinated approach involving the public sector and ecosystem-related entities would be essential to drive green bond demand through the implementation and communication of incentives. * There is considerable potential for development within the barrier considering the strong demand for quantitative incentives and the effective communication of qualitative benefits. |
| Awareness of Gender Responsive Investments | **Nascent** | * Contrary to the interest demonstrated by international impact investors for gender and social inclusion as part of their investment criteria, the local market is at early stages in this domain. |
| **Ecosystem-Related** | Multilateral and Bilateral Development Bank Support for Green Issuances | **Mature** | * MDBs appear to be capable of playing a similar role on the green bond market in Sri Lanka to the one played in other countries, which is now more focused on credit enhancement or being a leading investor than on bond issuance |
| Gender-related support from MDBs | **Nascent** | * In the gender area, partnerships with MDBs are still to be developed to capitalize on existing frameworks and pioneered operations implemented in other countries. |
| University Curriculums | **Performing** | * Although the knowledge base exists, and local universities have forged successful partnerships with foreign universities, further incentives and support could be beneficial. This amelioration of university curricula will catalyze and accelerate the growth of the green bond market in Sri Lanka. |
| Professional Curriculums | **Performing** | * Although valuable initiatives exist, an increased collaboration between all training stakeholders to meet a larger and more diversified audience would be a significant advantage. |
| Academic Research | **Nascent** | * Having additional researchers involved in the Sustainable finance Field, perhaps through the establishment of a Climate Research Center, could be a supplementary advantage to increase the average level of the sustainable finance knowledge and awareness in the market |
| Sustainable Finance Ecosystem and Clustering | **Nascent** | * While the CSE has begun to gather industry stakeholders and certain institutions have begun to collaborate the clustering and ecosystem building in Sri Lanka could be improved to develop “peer-to-peer learning” with other countries. |
| Trade Association Engagement | **Nascent** | * While some associations like the International Chamber of Commerce of Sri Lanka have engaged in the domain of sustainable trade principles, not all sectors are currently involved, which would deserve to accelerate the ongoing process. |
| International Collaborations | **Nascent** | * While some initiatives have been undertaken, by deepening its international collaborations Sri Lanka could facilitate the harmonization of definitions and structuring processes for green bonds to allow for broader international investor base participation. |

1. Source: <https://www.climatebonds.net/files/reports/cbi_mr_h1_2024_02e_1.pdf> [↑](#footnote-ref-2)
2. Source : <https://www.imf.org/en/Blogs/Articles/2023/11/06/how-green-innovation-can-stimulate-economies-and-curb-emissions> [↑](#footnote-ref-3)