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April 2024

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Sustainable Finance

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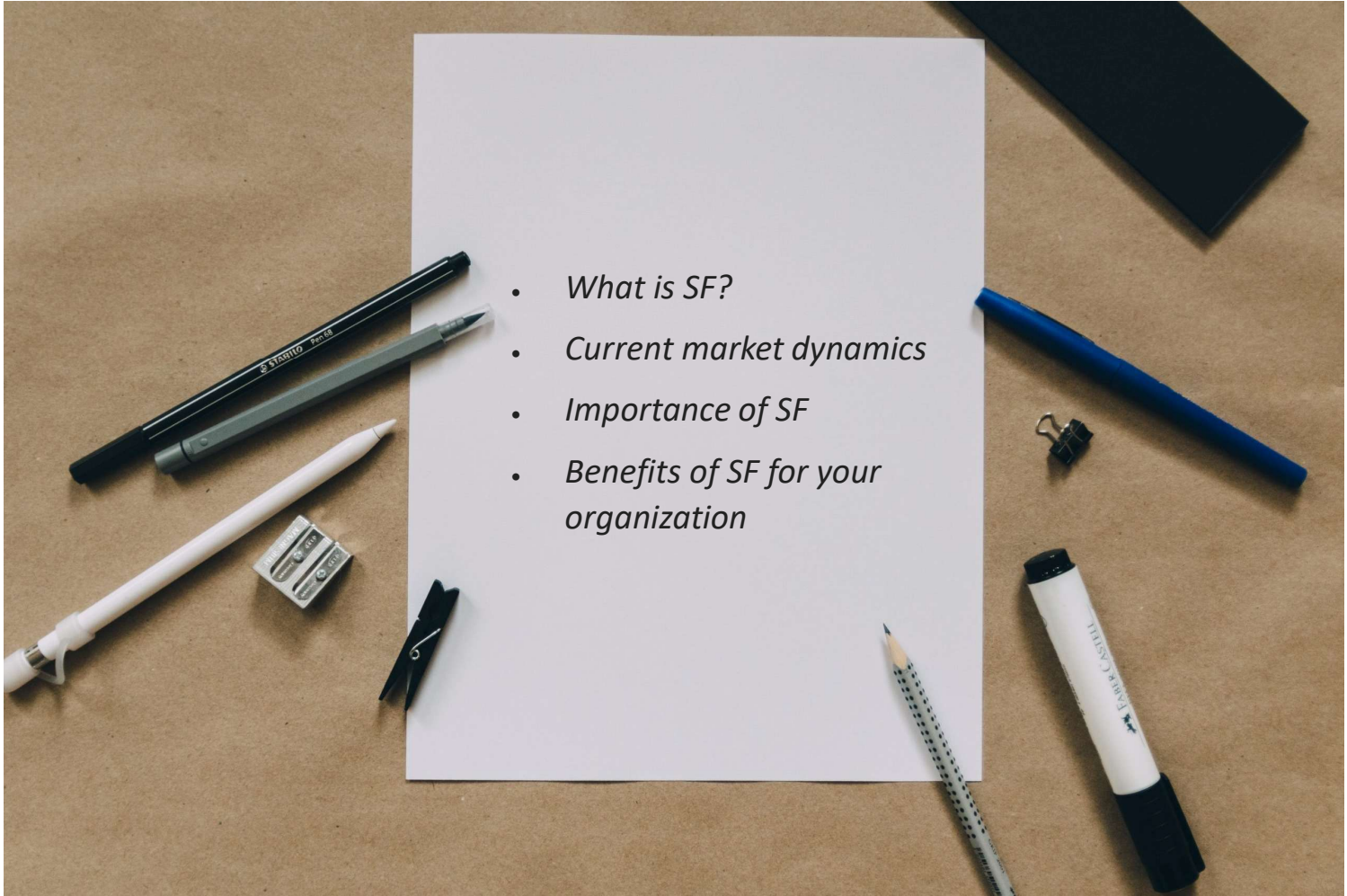
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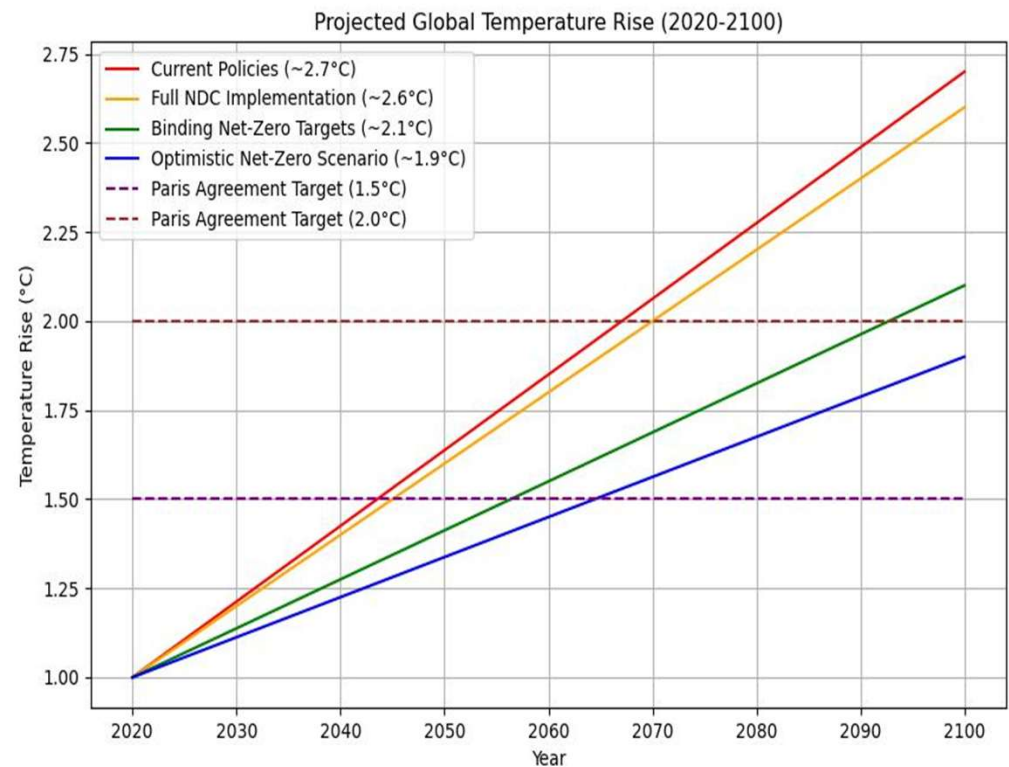
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Introduction to SF

- 
- *What is SF?*
 - *Current market dynamics*
 - *Importance of SF*
 - *Benefits of SF for your organization*

Setting the scene

- Current policies in place will lead to a $\sim 2.7^{\circ}\text{C}$ warming above pre-industrial levels by 2100.
- If all Nationally Determined Contributions (NDCs) are fully implemented, warming could be limited to $\sim 2.6^{\circ}\text{C}$
- If all 140 countries meet their net-zero targets, the median warming estimate is $\sim 1.9^{\circ}\text{C}$, likely staying below 2.1°C
- The Paris Agreement aims to limit global warming to well below 2°C , and ideally to 1.5°C above pre-industrial levels

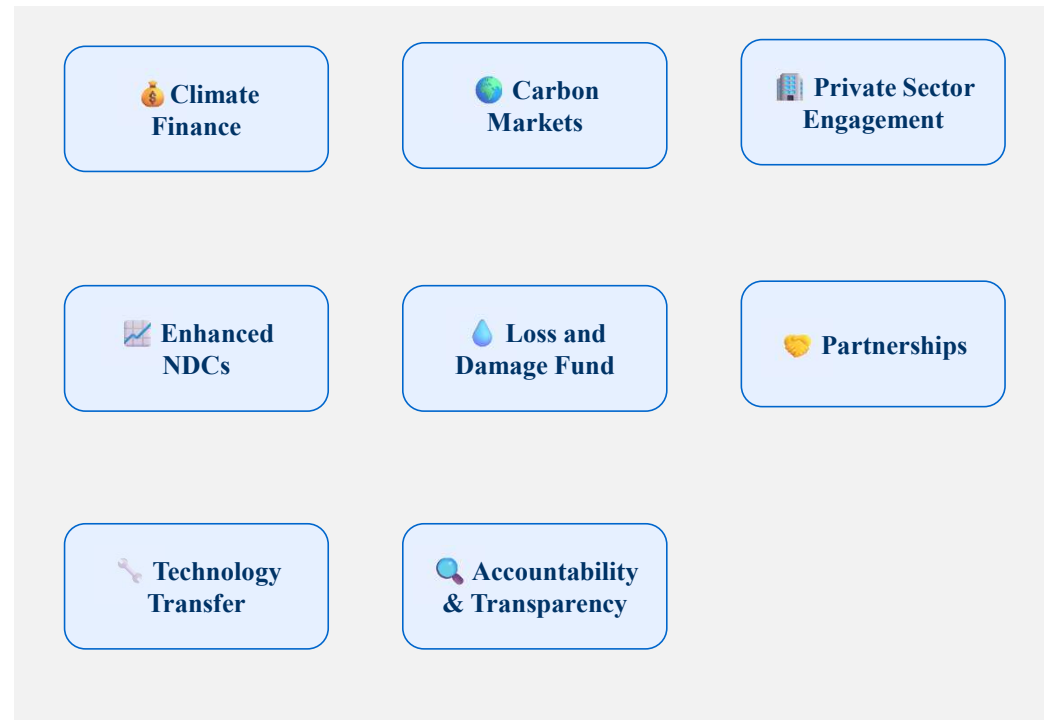


Setting the scene (cont..)

|  The UN Climate Agreements Kyoto Protocol & Paris Agreement | |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Kyoto Protocol | Paris Agreement |
|  Was created in 1997 and ratified in 2005. Had two periods from 1997-2020. |  Signed in November of 2016. New commitments are due every 5 years |
|  Legally binding agreement to decrease GHG |  Not legally binding commitment to reduce emissions, increase accountability |
|  Original commitment to decrease overall emissions by 5% from 1990 levels |  Overall goal to limit global temperatures to 1.5 degrees celcius above pre-industrial levels |
|  Only required developed nations to reduce emissions |  Asked all nations to reduce emissions |
|  Targets are set but no determined time frame |  New set of targets declared after 5 years (these are now due in 2020) |



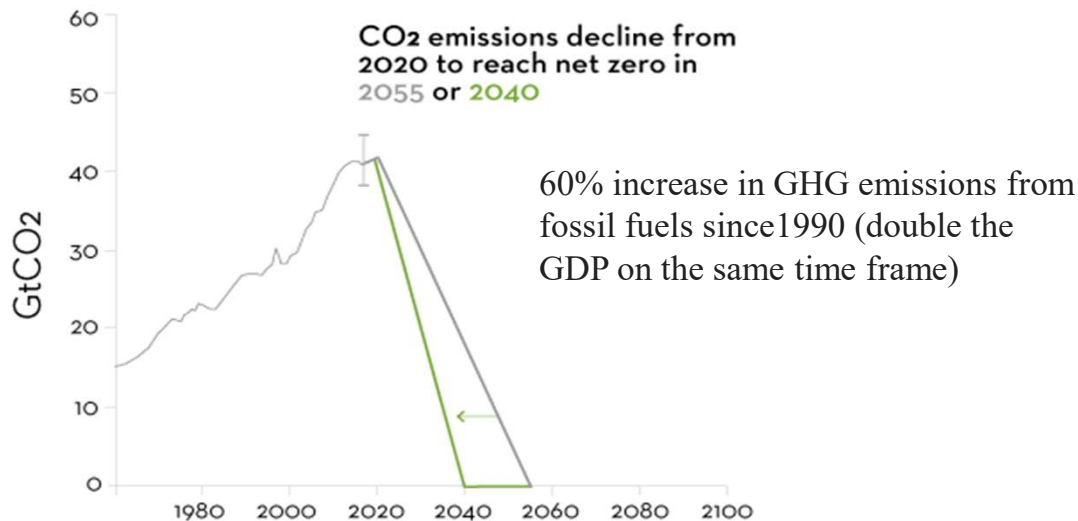
COP29



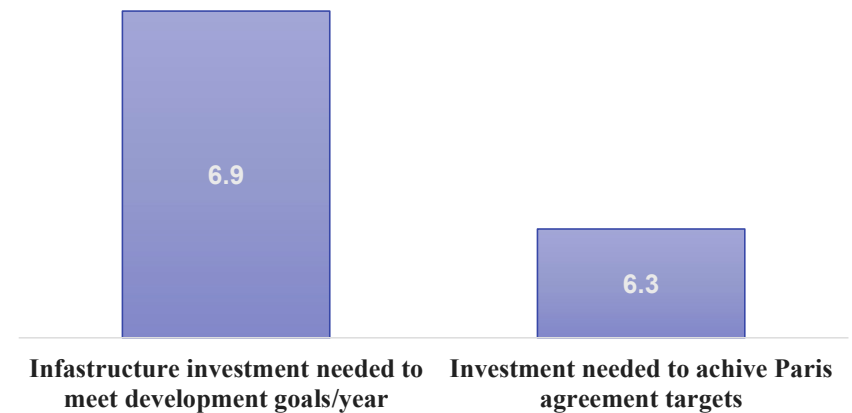
Current Sustainable Finance Market

Stylised net global CO₂ emissions pathways

Billion tonnes CO₂ per year (GtCO₂/yr)



Required investments (USD trn)



- 45% reduction of GHG emissions is required by 2030 (vs. 2010) & reach net zero by 2045 to attain 1.5°C Paris agreement targets
- According to IPCC energy, land, urban & infrastructure (including transport & buildings) & industrial systems need far reaching transition
- 5X increase is required in low carbon energy & energy efficiency investments

Current Sustainable Finance Market (cont..)



Paris agreement signatories are committed towards finance flows consistent with a pathway towards low GHG emission & climate resilient development



Annual climate finance flows – USD 500-600bn in 2023



Annual investment required to low carbon transition – USD 1.6-3.8trn



More than 600 SF related policies & regulations



Importance of Sustainable Finance



Mobilizes capital for climate-resilient infrastructure



Supports transition to low-carbon economy



Encourages responsible investment practices



Drives innovation in green technologies

Drives innovation in green technologies

Renewables



70%

Green Infra



50%

Social Development



40%

Energy Efficiency



30%

Benefits of Sustainable Finance for Organizations



Enhanced Reputation

The reporting frameworks ensure businesses communicate progress and meet market expectations.



Risk Mitigation

Sustainable finance helps institutions identify and mitigate environmental, social, and governance (ESG) risks, such as climate-related risk regulatory penalties.



Access to Green Capital

Attracts capital from environmentally and socially responsible investors. Example areas: Renewable energy (solar, wind), green buildings, sustainable transport.



Long-term Profitability

The financial benefits of sustainability are clear: from cost savings and increased investment opportunities to stronger customer loyalty and long-term resilience.



Regulatory Compliance

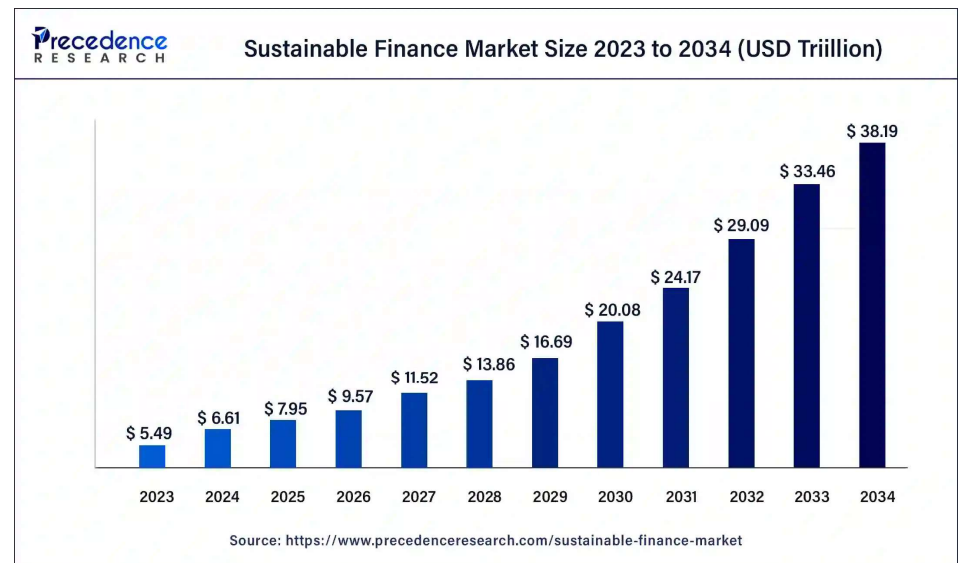
European Union (EU) has implemented significant regulations, such as the SFDR and the Taxonomy Regulation, to enhance transparency and prevent greenwashing.

Shifting capital towards sustainability

- Policymakers & regulators has vital role in rapid & radical redirection of capital flows from non-sustainable investments to sustainable investments
- The global sustainable finance market size accounted for USD 6.61 trillion in 2024 and is predicted to reach around USD 38.19 trillion by 2034, growing at a solid CAGR of 19.2% during the forecast period from 2024 to 2034.
 - 46% of assets in Europe
 - 28% of assets in USA
 - 14% of assets in Japan

Global Sustainable Investment Alliance

- USD 18.8 bn Green Bonds issued till 2024 since its inception in 2007 (Climate Bond Initiative)



ESG investing – Key research takeaways

Growth factors for ESG investing

- Investor demand
- Performance
- Policy support

For example, a recent study by Morningstar found that global sustainable equity funds outperformed traditional equity funds by an average of 2.1% per year over the past five years. Additionally, a survey by BlackRock found that 85% of investors believe that ESG factors are important to their investment decisions.

Impact of ESG investing

- ESG funds are driving investment in clean energy and other sustainable technologies
- ESG investing is helping to reduce corporate greenhouse gas emissions
- ESG investing is improving corporate diversity and inclusion



Engaging in ESG investing

- Negative screening
- Positive screening
- ESG index screening (eg: Vanguard ESG U.S. Stock ETF)

ESG investing by top firms:

- BlackRock, the world's largest asset manager, has committed to making sustainability a core consideration in all of its investment decisions.
- Goldman Sachs has launched a new [ESG investment](#) platform that will provide investors with access to a range of ESG-focused funds and investment products.
- Morgan Stanley has committed to investing USD200bn in [sustainable finance](#) initiatives over the next five years.
- JPMorgan Chase has committed to investing USD100bn in climate change mitigation and adaptation initiatives over the next decade.

Impact investing



Impact investments are investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return.



Key attributes of sustainable finance its link to ESG attributes



Impact monitoring is therefore plays a crucial role in sustainable finance in order to generate expected outcome of impact investing

ESG Ratings



Our Clients Our Solutions Research & Insights Technology Who We Are

STARBUCKS CORPORATION

(SBUX)

Industry: Restaurants

Country/Region: United States of America



What is the company's commitment to reduce its carbon emissions?



Would the company's emissions goals be enough to help keep global warming to 1.5°C?



How well is the company managing the environmental, social and governance (ESG) issues that could affect it financially?

MSCI
ESG RATINGS



MSCI SUSTAINALYTICS

Investor Solutions Corporate Solutions Company Ratings Resource Center

Nestlé SA

Industry Group: Food Products

Country/Region: Switzerland

Identifier: SWX:NESN

With a 150-year-plus history, Nestlé is the largest food and beverage manufacturer in the world by sales, generating more than CHF 90 billion in annual revenue. Its diverse product portfolio includes brands such as Nestlé, Nescafé, Perrier, Pure Life, and Purina. Nestlé also owns around 20% of French cosmetics firm L'Oréal. The company employs...

+ Show More

Full time employees: 275,000

ESG Risk Rating

COMPREHENSIVE

27.0 Medium Risk

Ranking

Industry Group (1st = lowest risk)

Food Products

128 out of 619

Universe

Global Universe

9087 out of 15622

Negligible Low Medium High Severe
0-10 10-20 20-30 30-40 40+

Last Full Update: Dec 5, 2022

Last Update: Dec 20, 2023

Toyota Motor Corporation ESG Score

Ticker: 7203 Industry: AUT Automobiles Location: Japan

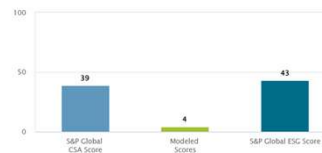
Notification: For the Methodology Year 2023 onwards, the S&P Global ESG Score incorporates question-level scores based on modeling approaches in the absence of disclosure. For more information, please refer to the methodology documentation.

S&P Global ESG Score

43

Data Availability: High
Methodology Year: 2023
Updated annually or in response to major developments
UNDER REVIEW

Score Composition



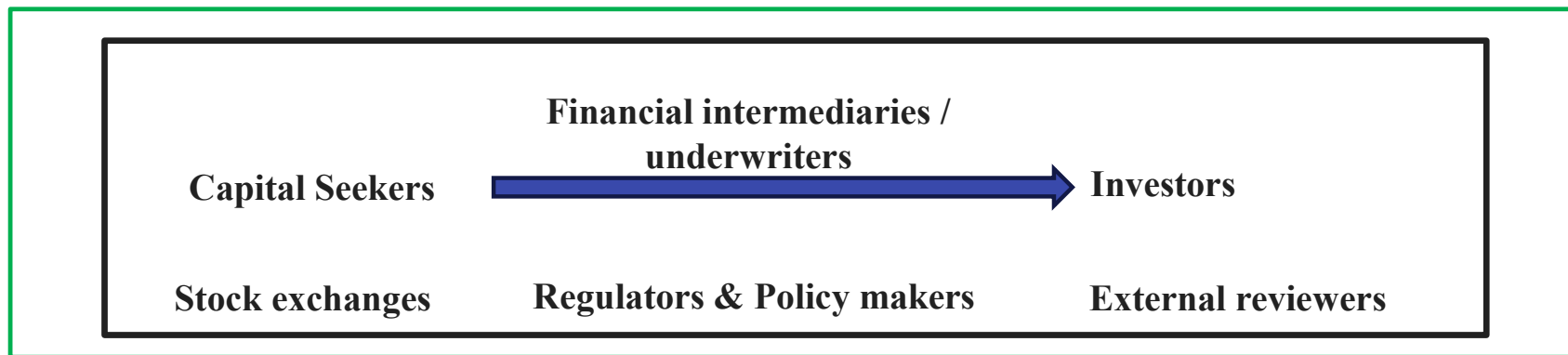
Score Breakdown

Toyota Motor Corp. Industry Max Industry Mean



Sustainable Finance Market Participants

- Participants in SF markets



- Sustainable finance consider the impact created on ESG in its decision making in addition to the conventional consideration of financial risk, return attributes

Frameworks, Guidelines & Regulations

- SF frameworks - Equator principle, UNFI principles for sustainable Insurance, UNFI principles for sustainable Investments
- NZBA
- *European Green deal & SF regulations for Europe market participants –CSRD & SFDR*
- *National Environment Act*
- *Sri Lanka Green Finance taxonomy*
- *Environment & Social Framework of ADB*
- *ESG performance standards of IFC*

Importance of Frameworks, Guidelines & Regulations

Sustainable issuance required issuing body to have below documents

- Environment & Social Management Framework
- Environment & Social Management System
- Green Finance Framework

Those documents are based on

- Local regulations
- Participating institutes or Stakeholder E&S requirements (ADB, IFC etc)
- Globally recognized reporting standards
- Guidance documents on globally recognized best practices



International Frameworks Promoting Sustainable Finance

UNFI Principles for Responsible Banking

| | | |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Principle 1: Alignment Align business strategy with individual needs & societal goals as set out in Paris climate agreement, SDGs & relevant national & regional frameworks | Principle 2: Impact & target setting Manage the business risk to improve positive impact & reduce the negative impact to the environment & the people. Targets will be set & published | Principle 3: Clients & customers Promote sustainability among clients & customers to create shared prosperity for current & future generations |
| Principle 4: Stakeholders Proactively & responsibly engage, consult & partner with stakeholders to achieve societal goals | Principle 5: Governance & Culture Implement the commitment through effective governance & culture | Principle 6: Transparency & Accountability Proactively review individual & collective implementation Be transparent & accountable for positive & negative impacts to the society via business operations |

International Frameworks Promoting Sustainable Finance

UNFI Principles for Sustainable Investments



•**Principle 1:** We will incorporate ESG issues into investment analysis and decision-making processes.

•**Principle 2:** We will be active owners and incorporate ESG issues into our ownership policies and practices.

•**Principle 3:** We will seek appropriate disclosure on ESG issues by the entities in which we invest.

•**Principle 4:** We will promote acceptance and implementation of the Principles within the investment industry.

•**Principle 5:** We will work together to enhance our effectiveness in implementing the Principles.

•**Principle 6:** We will each report on our activities and progress towards implementing the Principles.

| ESG incorporation (Considering ESG issues when building the portfolio) | | | Active ownership & stewardship (Improving investees' ESG performance) | |
|--------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------|
| Incorporating ESG issues into existing or new investment practices | | | Encourage companies which are already in the investment portfolio for better ESG risk management & sustainable practices | |
| Integration | Screening | Thematic | Engagement | Proxy voting |
| Explicitly & systematically include ESG issues in investment analysis and decisions to better risk return dynamics | Applying filters to list of potential investments to rule out or in companies based on investor's preference, values & ethics | Attractive risk return profiles through contributing to specific ESG outcomes including impact investments | Discuss ESG issues with the companies to improve their handling, disclosure etc Can be done individually as well as collectively | Formally express approval or disapproval via voting on resolution Proposing shareholder resolutions on specific ESG issues |

International Frameworks Promoting Sustainable Finance

Equator principle

The Equator Principles (EPs) are intended to serve as a common baseline and risk management framework for financial institutions to identify, assess and manage environmental and social risks when financing Projects.

128 FIs globally are signatories



UNFI Principles for Sustainable Insurance

- Embed ESG in decision making
- Promote ESG among clients & business partners, manage risk & develop solutions
- Partnership for widespread ESG actions
- Transparency & accountability



Net Zero Banking Alliance



Net Zero Banking Alliance

| | | |
|----------------------|-------------------------|-------------------------------------|
| 128 Banks | 44 Countries | US\$ 47trn Total assets* |
|----------------------|-------------------------|-------------------------------------|

Net Zero Banking Alliance Guidelines

| | |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><u>One</u></p> <p>Individually and independently set and publicly disclose long-term and intermediate targets to support meeting a net-zero GHG emissions goal and towards alignment with the Paris Agreement.</p> | <p><u>Two</u></p> <p>Establish an emissions baseline and annually measure and report the emissions profile of their lending, investment, and capital markets activities.</p> |
| <p><u>Three</u></p> <p>Use widely accepted science-based decarbonization scenarios to set both long-term and intermediate targets that are aligned with a net-zero goal and the goals of the Paris Agreement.</p> | <p><u>Four</u></p> <p>Regularly review targets to ensure consistency with current climate science.</p> |

European Green Deal

- **Climate Neutrality:** The primary goal is to make Europe the world's first climate-neutral continent by 2050
- **Clean Energy**
- **Circular Economy**
- **Biodiversity and Ecosystems**
- **Sustainable Agriculture and Food Systems**
- **Sustainable Mobility**
- **Renovation of Buildings**
- **Just Transition:** The deal emphasizes the importance of a fair and inclusive transition, ensuring that the changes in economic and industrial practices do not disproportionately affect vulnerable communities and workers



Corporate Sustainability Reporting Directive (CSRD)

What is CSRD

- The CSRD revises and extends requirements under the Non-Financial Reporting Directive ("NFRD") for undertakings to disclose non-financial information. Under the CSRD, in-scope entities will have to report information on a wide range of environmental, social and governance ("ESG") issues

History of CSRD

- 2014: The NFRD was introduced, requiring large public-interest companies and other large companies to disclose non-financial information.
- 2022: The CSRD was adopted to replace the NFRD, significantly expanding the scope and depth of sustainability reporting.
- 2023-2024: The ESRS was developed to guide companies in meeting CSRD reporting requirements.
- 2025: The European Commission proposed the Omnibus changes, which include adjustments to scope, compliance timelines, and specific obligations.

Key changes proposed by the Omnibus proposal

| Change | Details |
|------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Scope narrowing | The CSRD would apply only to companies with more than 1,000 employees and a net turnover of €450m. |
| Delayed implementation | The compliance deadline would be extended by one year. 2026: Large EU public interest entities will be the first to start reporting. 2027: This will extend to large EU undertakings and parent groups. 2028: Small and medium-sized enterprises (SMEs) listed on EU-regulated markets will join in. 2030: Finally, non-EU companies with significant activities in the EU will also be required to comply |
| Sector-specific ESRS standards suspended | Industry-specific sustainability reporting requirements would be put on hold. |
| Due diligence monitoring relaxed | Companies would need to assess their supply chains every five years instead of annually. |
| EU Taxonomy compliance made voluntary | Companies could choose whether to align their sustainability reports with the EU Taxonomy. |
| Reduced liability and penalties | Financial penalties and termination of non-compliant supplier contracts would no longer be mandatory. |

Corporate Sustainability Reporting Directive (CSRD)

Scope under revised Omnibus proposal

- The CSRD applies to large EU undertakings that meet at least two of the following three thresholds:
 - at least 1000 employees,
 - Allor a net turnover of €450 million
 - listed companies on EU-regulated markets, including non-EU parent companies of EU subsidiaries.
 - Certain large non-listed companies that meet the financial and employee thresholds.
 - Non-EU companies who generates >€450 million turnover in EU and/or having a branch or subsidiary in EU and/or being listed in EU regulated market

What remains unchanged

- Core sustainability reporting obligations: Companies must continue to disclose their sustainability performance in line with the ESRS. Additionally, companies would still be required to report their financial and sustainability information within specific sections of their management reports and annual reports.
- Reporting requirements for listed companies: Listed companies within the scope of the CSRD must still publish sustainability reports alongside their annual financial statements.
- Assurance requirements: Sustainability reports must undergo external assurance to ensure reliability.
- Digital tagging: A company report must include digital tags for sustainability data to comply with the digital reporting requirements of the CSRD.
- Double materiality remains the key principle

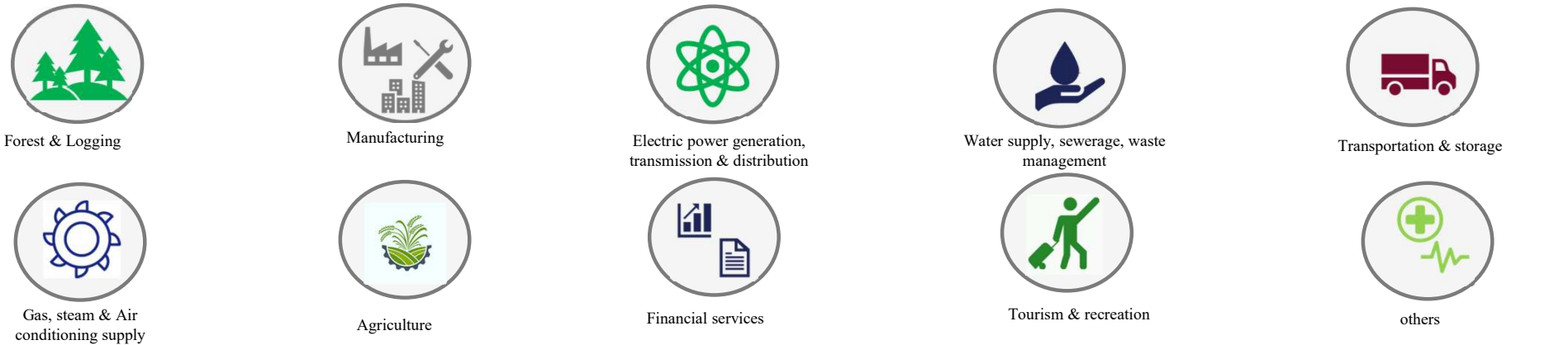
Sustainable Finance Disclosure Regulations (SFDR)

- How financial market participants must disclose sustainability information
- It helps those investors who seek to put their money into companies and projects supporting sustainability objectives to make informed choices.
- The SFDR is also designed to allow investors to properly assess how sustainability risks are integrated in the investment decision process
- Applies to Financial market participants, Financial advisers & also to Sustainable finance products
- Financial market participants & financial advisers are expected to report on consideration of negative externalities in their business models, evidence of no such negative externalities present, integration of sustainability risks into their investment decision-making process and financial advice; and consistence of remuneration policies with sustainability risks
- Sustainable finance products are expected to specify in pre-contractual documents how sustainability risks are integrated into investment decisions; and identify the possible impact on an investment's profitability

Sri Lanka Green Finance Taxonomy in a Nutshell



Economic activities covered



Local Regulation: National Environment Act and the Related Gazette Notifications

- National Environment Act No. 47 of 1980,
 - (Amendment) Act, No. 56 of 1988 &
 - (Amendment) Act, No. 53 of 2000
- Gazette no 772/22 of 24th June, 1993 and 859/14 of 23rd February 1995 & 1104/22 of 05th November 1999 : Projects that require EIA/IEE
 - Prescribed projects for EIA

Only large-scale development projects that are likely to have significant impacts on the environment are listed as prescribed projects. The projects are prescribed according to two categories.

1. By type and the magnitude. (e.g. Thermal Power Project over 25 MW, Hotels over 99 rooms, highways over 10 km, cement manufacturing plants, reclamation of wetlands over 4 hectares)
 2. By location (e.g. if projects are located wholly or partially within environmentally sensitive areas such as forest and wildlife reserves, stream or lake reservation, archaeological reserve, declared erodible areas etc).
- Gazette has three parts
 - Part I:
 - Part II: All activities in the Part I irrespective of the size if located in areas prescribed in part III
 - Part III: Environment Sensitive areas

Local Regulation: National Environment Act and the Related Gazette Notifications

➤ Gazette Extraordinary no 1533/16 of 25 January 2008: Projects that require EPL

➤ Category A

THE PRESCRIBED ACTIVITIES FOR WHICH A LICENSE IS REQUIRED

➤ Category B

PART A

1. Chemicals manufacturing or formulating or repacking industries.
2. Soaps, detergents, softener or any other cleansing preparations manufacturing industries having a production capacity of 1,000 kilograms per day or more.
3. Bulk petroleum liquid or liquefied petroleum gas storage or filling facilities having a total capacity of 150 or more metric tons excluding vehicle fuel filling stations.
4. Industries involved in the use of fibreglass as a raw material where 10 or more workers are employed.
5. Synthetic rubber, natural rubber manufacturing or processing or rubber based industries excluding industries which manufacture less than 100 kilograms of ribbed smoke rubber sheets per day.
6. Activated carbon or carbon black manufacturing industries or charcoal manufacturing industries having a production capacity one or more metric ton per batch.
7. Industries involved in manufacturing extracting or formulating Ayurvedic, Indigenous medicinal products where 25 or more workers are employed.

➤ Category C

PART B

1. Soaps, detergents, softener or any other cleansing preparations manufacturing industries having a production capacity less than 1,000 kilograms per day.
2. Bulk petroleum liquid storage facilities excluding filling stations or liquefied petroleum gas (LP Gas) storage or filling facilities having a total capacity less than 150 metric tons.
3. industries involved in the use of fibre glass as a raw material where less than 10 workers are employed.
4. Ribbed smoke rubber sheet manufacturing industries having a production capacity of more than 50 kilograms and less than 100 kilograms per day.
5. Activated carbon or carbon black manufacturing industries or charcoal manufacturing industries having a production capacity less than one metric ton per batch.
6. Industries involved in manufacturing, extracting or formulating Ayurvedic, indigenous medicinal products where

PART C

1. All vehicle filling stations (liquid petroleum and liquefied petroleum gas).
2. Manufacturing of candles where 10 or more workers are employed.
3. Coconut oil extraction industries where 10 or more workers and less than 25 workers are employed.
4. Non-alcoholic beverages manufacturing industries where 10 or more workers and less than 25 workers are employed.
5. Rice mills having dry process operations.
6. Grinding mills having production capacity of less than 1,000 kilograms per month.
7. Tobacco barns.

Environment & Social Framework of ADB

- Environment & Social Framework of ADB adopted in Nov 202 comprises of the following
- Vision, which sets out the aspirations of the Asian Development Bank (ADB) regarding environmental and social (E&S) sustainability
- Environmental and Social Policy (E&S Policy), which sets out the mandatory responsibilities that apply to ADB
- Environmental and Social Standards (ESSs), which set out the mandatory requirements that apply to borrowers/ clients
- Requirements for Financing Modalities and Products, which set out the mandatory responsibilities that apply to ADB and mandatory requirements that apply to borrowers/clients for different financing modalities and products; and
- Prohibited Investment Activities List

The 10 Environmental and Social Standards, which establish the performance standards that borrowers/clients and projects will meet throughout a project cycle, are as follows:

- Environmental and Social Standards 1: Assessment and Management of Environmental and Social Risks and Impacts
- Environmental and Social Standards 2: Labor and Working Conditions
- Environmental and Social Standards 3: Resource Conservation and Pollution Prevention
- Environmental and Social Standards 4: Health, Safety, and Security
- Environmental and Social Standards 5: Land Acquisition and Land Use Restriction
- Environmental and Social Standards 6: Biodiversity Conservation and Sustainable Natural Resources Management
- Environmental and Social Standards 7: Indigenous Peoples
- Environmental and Social Standards 8: Cultural Heritage
- Environmental and Social Standards 9: Climate Change
- Environmental and Social Standards 10: Stakeholder Engagement and Information Disclosure.

Environment & Social Framework of ADB

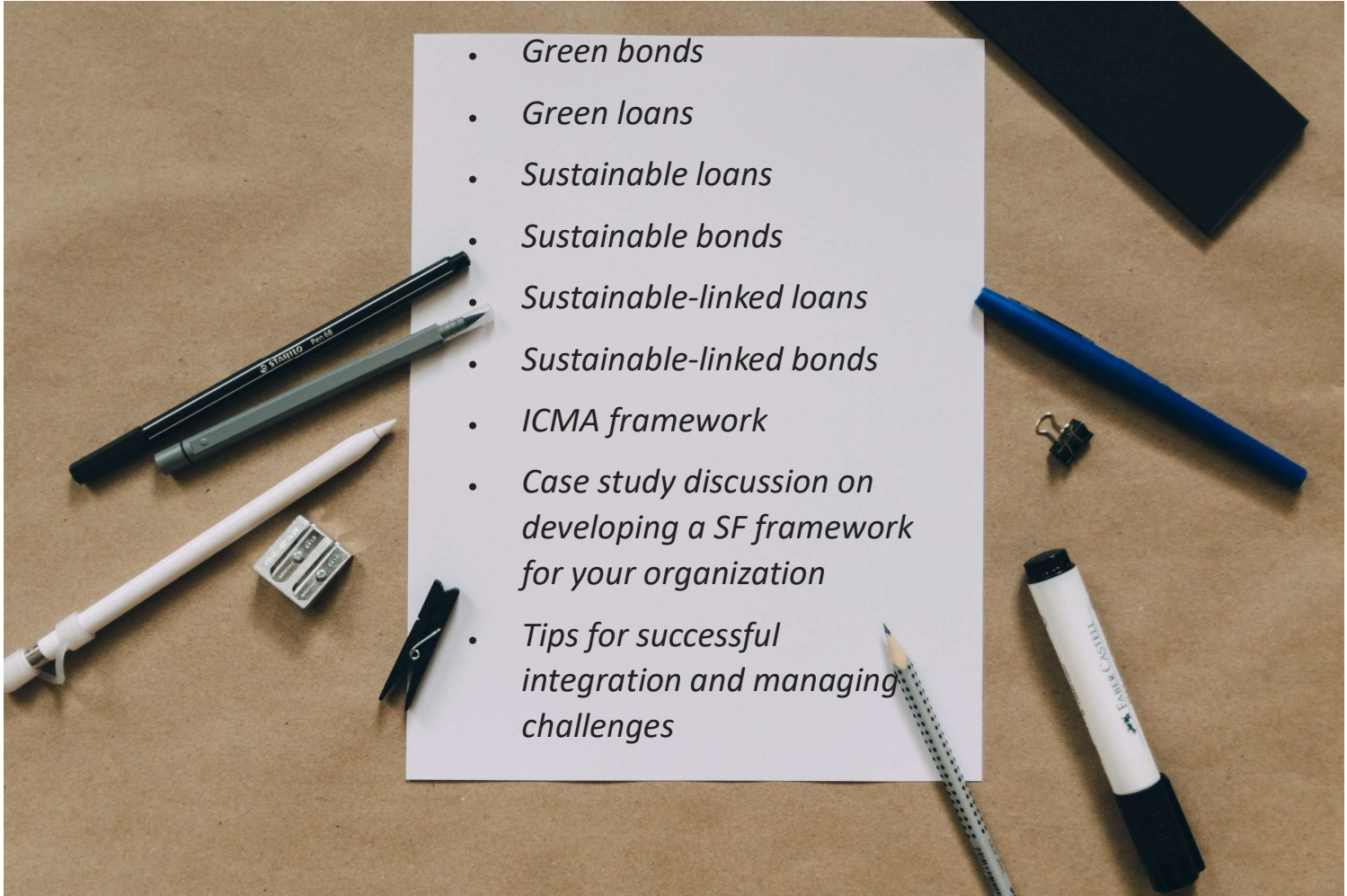
Risk categorization of projects based on the E&S Risk

- High risk - A proposed project is classified as High Risk if it is likely to have significant adverse impacts that are irreversible, diverse, or unprecedented
- Substantial risk – The project may not be as complex as a High Risk project. The nature and scale of its E&S risks and impacts may be smaller and the location may not be in such a highly sensitive area, but some adverse risks and impacts may be significant. This would consider whether the potential E&S risks and impacts have the majority or all of the following characteristics: (1) they are mostly temporary, predictable and/or reversible, and the nature of the project does not preclude the possibility of avoiding or reversing them;
- Moderate risk - The potential adverse risks and impacts on human populations and/or the environment are not likely to be significant. This is because the project is not complex and/or large, does not involve activities that have a high potential for harming people or the environment, and is located away from environmentally or socially sensitive areas.
- Low risk - A proposed project is classified as Low Risk if its potential adverse risks to and impact on human populations and/or the environment are likely to be minimal or negligible. 26. ADB will include the basis for a project's E&S risk classification in the relevant project

ESG Performance Standards of IFC

- Performance Standard 1: Assessment and Management of Environmental and Social Risks and Impacts
- Performance Standard 2: Labor and Working Conditions
- Performance Standard 3: Resource Efficiency and Pollution Prevention
- Performance Standard 4: Community Health, Safety, and Security
- Performance Standard 5: Land Acquisition and Involuntary Resettlement
- Performance Standard 6: Biodiversity Conservation and Sustainable Management of Living Natural Resources
- Performance Standard 7: Indigenous Peoples
- Performance Standard 8: Cultural Heritage

Sustainable Finance Products & structuring SF facility

- 
- *Green bonds*
 - *Green loans*
 - *Sustainable loans*
 - *Sustainable bonds*
 - *Sustainable-linked loans*
 - *Sustainable-linked bonds*
 - *ICMA framework*
 - *Case study discussion on developing a SF framework for your organization*
 - *Tips for successful integration and managing challenges*

SF Products

Green Bonds

Green Loans

Social Bonds

Social Loans

**Sustainability-
Linked Loans**

**Sustainability-
Linked Bonds**

SF Products – Green Bonds

What are Green Bonds

Green bonds are a type of fixed-income investment used to fund projects with a positive environmental impact. Green bonds offer investors a stated return and a promise to use the proceeds to finance or refinance sustainable projects, either in part or whole.

It consist of Four core components:

Use of proceeds, Process for project evaluation and selection,
Management of proceeds, Reporting

Eligible projects

Projects funded by green bonds include renewable energy, energy efficiency, clean public transportation, pollution prevention and control, conservation, sustainable water and wastewater management, and green buildings that meet internationally recognized standards and certifications

How Do I Know If a Green Bond Is Actually Green?

Despite efforts like those of the Climate Bonds Initiative, there is no universally recognized standard for determining the environmental friendliness of a bond. However, now investors are buying the Green Bonds if the bonds had followed the ICMA principle

Examples of Green Bond issuances

Resus Energy's Rs. 1 b Green Bond powers Sri Lanka's clean energy transition

Wednesday, 25 June 2025 00:25 - 341

- Launches Sri Lanka's first-ever Green Bond by non-banking energy firm to fund solar projects and refinance debt
- Over 55% of funds will build 8 MW of new solar capacity, expected to generate 15 GWh/year and cut 10,000 tonnes of CO₂ emissions annually
- Bond offers fixed annual returns of 11.55% (4 years) and 11.75% (5 years), with an A–(lka) rating from Fitch and listing on CSE

SF Products – Green Loans

What are Green Loans

A green loan is like a green bond in that it raises capital for green eligible projects. However, a green loan is based on a loan that is typically smaller than a bond and done in a private operation. A green bond usually has a bigger volume, may have higher transaction costs, and could be listed on an exchange or privately placed.

Why are green loans important?

Developing countries currently account for just \$1.6 billion of the estimated \$33 billion in outstanding green loans. But the market is growing rapidly, outpacing the growth of the green-bond market in the near term. Considering the higher transaction costs of bond issuance, potential issuers in emerging markets with small green portfolios may feel inclined to receive a green loan instead of issuing a green bond.

How Do I Know If a Green Bond Is Actually Green?

The Green Loan Principles and the Green Bond Principles (GBP) of the International Capital Market Association (ICMA). Both instruments specify that 100% of the proceeds should be used only for green eligible activities.

Examples of Green Bond issuances

NDB Bank Empowers Sri Lankan Industry to Go Green with E-Friends II Refinance Loan Scheme

The E-Friends II Refinance Loan Scheme supports a wide range of environmentally focused initiatives, including:

- Reducing industrial pollution and harmful emissions
- Introducing cleaner production technologies and processes
- Managing waste more effectively and promoting resource efficiency
- Saving energy and adopting renewable energy solutions
- Encouraging circular economy principles and sustainable production

SF Products – Social Bonds

What are Social Bonds

Social bonds are a type of fixed-income investment used to fund projects with a direct and measurable social impact. Social bonds offer investors a stated return and a promise to use the proceeds to finance or refinance sustainable projects, either in part or whole.

It consists of four core components:

Use of proceeds, Process for project evaluation and selection, Management of proceeds, Reporting

Eligible projects

Projects funded by social bonds include clean drinking water, sewers, sanitation, transport, energy, health, education and vocational training, healthcare, financing and financial services, affordable housing, employment generation and programs, food security and sustainable food systems, Socioeconomic advancement and empowerment

Social Bond Transparency?

Social bonds must adhere to specific guidelines, such as the Social Bond Principles (SBP) established by the ICMA. These principles require issuers to clearly define the social impact of the projects

Examples of Social Bond issuances



The transaction represents IFC's largest ever social bond, and the largest US dollar denominated social bond issued by a supranational. The orderbook reached a total size of \$11 billion, IFC's largest ever order book for a single bond issuance.

“In an era marked by rising inequality and poverty, social bonds have emerged as a crucial tool for directing investments to essential projects in emerging markets,” said John Gandolfo, IFC Vice President and Treasurer, Treasury & Mobilization. “This bond will unlock additional funding for vulnerable communities and underserved groups in emerging markets in areas such as health, education, and food security.”

SF Products – Social Loans

What are Social Loans

A loan instrument exclusively made available to finance or re-finance, in whole or in part, new or existing eligible social projects. To qualify as a social loan, the loan proceeds must finance or refinance a project or activity that seeks to achieve positive social outcomes.

Eligible Projects

- Affordable basic infrastructure
- Access to essential services
- Affordable housing
- Employment generation, and programs designed to prevent and or alleviate unemployment stemming from socioeconomic crises
- Food security and sustainable food systems
- Socioeconomic advancement and empowerment

Social Loan Transparency?

To qualify as a social loan, it must adhere to the Social Loan Principles (SLP), and especially but not exclusively for a target population - those living below the poverty line; migrants and/or displaced persons; the unemployed or undereducated; women, sexual, and gender minorities

Examples of Green Bond issuances

DFCC Bank acts as Lead Arranger in \$ 100 m loan for India's Satin Creditcare

Friday, 6 June 2025 00:06

DFCC Bank PLC announced its role as a Lead Arranger in a landmark \$ 100 million Social Loan Facility raised by Satin Creditcare Network Ltd., (SCNL), one of India's largest microfinance institutions.

Proceeds from the loan will be directed towards onward lending to underserved women entrepreneurs in rural and semi-urban regions of India, supporting inclusive growth and economic empowerment. The initiative reflects DFCC Bank's ongoing commitment to promoting sustainable development, financial inclusion, and cross-border partnerships across South Asia.

SF Products – Sustainability-linked Loans

What are Sustainability-linked Loans

Sustainability-linked loan (SLL) is like other revolving credit facilities – a type of corporate loan – with the difference being the interest paid by the borrower. This interest is linked to selected sustainability key performance indicators (KPIs) and funds can be used for general corporate purposes.

Types of SLLs

- Target linked loans
- ESG Rating linked loans
- Combination of Targets and ESG Ratings

Selection of Key Performance Indicators (KPIs)

- Relevant and material: Core to the borrower's overall business and sustainability strategy
- Measurable: Quantifiable on a consistent methodological basis
- Externally verifiable: Subject to independent assessment
- Able to be benchmarked: Using external references or standards where possible

Common KPIs used in SLLs?

- Greenhouse gas emissions (both absolute and intensity-based)
- Energy efficiency improvements
- Renewable energy usage
- Water consumption and management
- Waste reduction and circular economy metrics
- Biodiversity conservation
- Gender diversity and inclusion metrics
- Employee health and safety performance
- Supply chain sustainability improvements

Calibration of Sustainability Performance Targets

- Ambitious: Representing material improvement beyond "business as usual" trajectory
- Meaningful: Compared to a predetermined performance benchmark
- Regularly tested: Measured at least annually for the duration of the loan
- Core to business: Aligned with the borrower's overall sustainability strategy

SF Products – Sustainability-linked Bonds

What are Sustainability-linked Bonds

Sustainability-linked bonds (SLBs) are fixed income instruments where the financial characteristics are tied to predefined sustainability objectives. These objectives are measured through Key Performance Indicators (KPIs) and evaluated against Sustainability Performance Targets (SPTs)

Difference between GB and SLB

| Sustainability-Linked Bonds | Green Bonds |
|------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------|
| Issuers can use the funds raised from issuing SLBs to meet the expenses related to any corporate activity. | The proceeds from the issuance of green bonds are for sustainable purposes, like environment-friendly projects only. |
| There is no mandate related to green expenditure allocations. | Green bonds mandate significant green expenditure allocations. |
| These bonds are accessible to more issuers than green bonds. | Such financial instruments are less accessible. |

Common KPIs used in SLBs?

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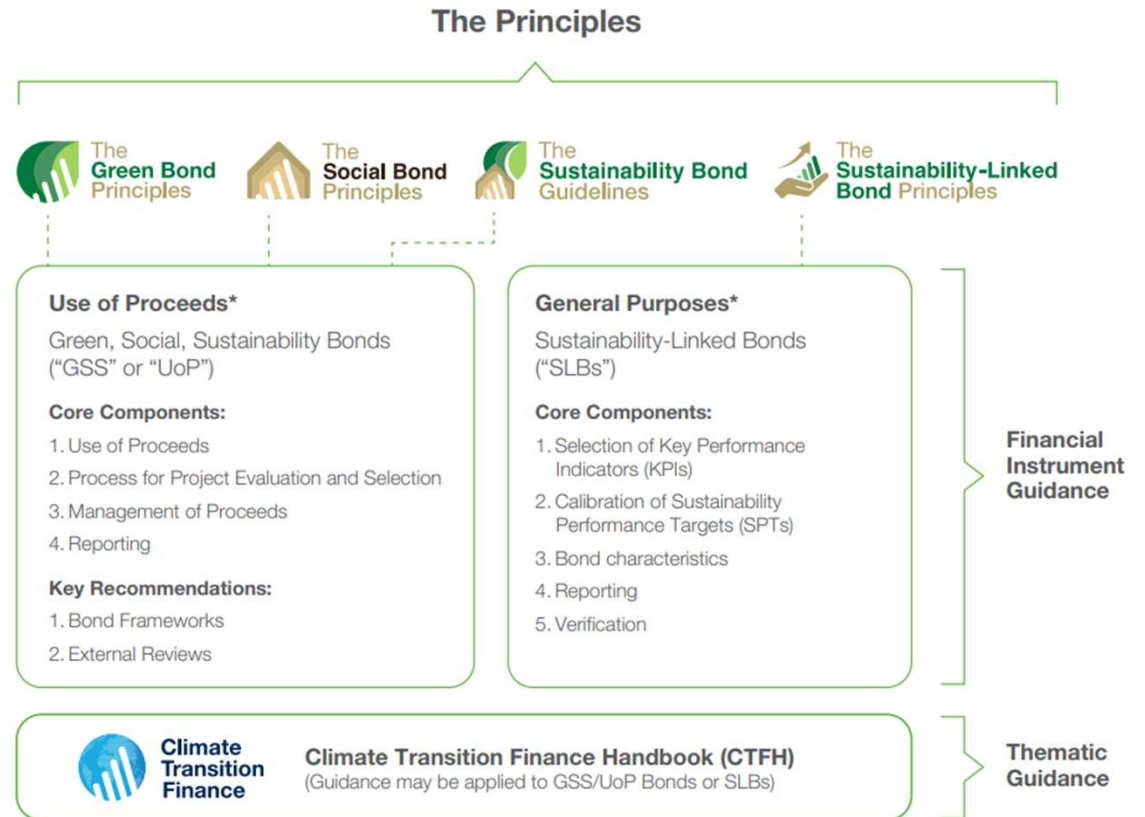
ICMA Principles

The four core components for alignment with the GBP are:

1. Use of Proceeds
2. Process for Project Evaluation and Selection
3. Management of Proceeds
4. Reporting

The key recommendations for heightened transparency are:

- (i) Green Bond Frameworks
- (ii) External Reviews



Tips for Successful Integration and Managing Challenges

Tips for Successful Integration

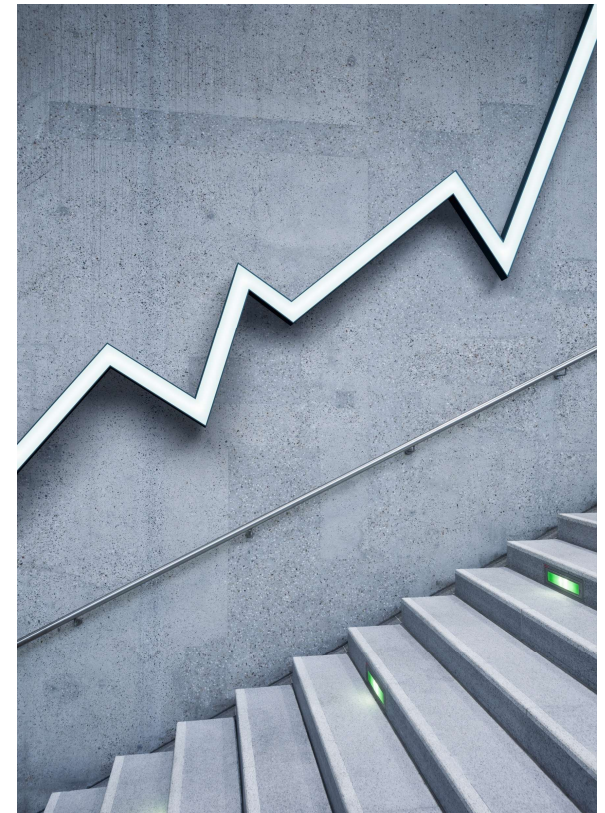
Understand Principles: Familiarize yourself with the core principles of sustainable finance, such as ESG (Environmental, Social, and Governance) criteria, green bonds, and impact investing.

Set Clear Goals: Define what you aim to achieve with sustainable finance. Whether it's reducing carbon footprint, supporting social causes, or improving governance, having clear objectives will guide your strategy.

Engage Stakeholders: Involve all relevant stakeholders, including employees, investors, and customers. Their buy-in is crucial for successful implementation.

Develop Framework: Create a comprehensive framework that includes policies, procedures, and metrics for measuring success. This will help in tracking progress and making necessary adjustments.

Monitor and Report: Regularly monitor your progress and report on your achievements. Transparency builds trust and demonstrates your commitment to sustainability.



Tips for Successful Integration and Managing Challenges (cont..)

Managing Challenges

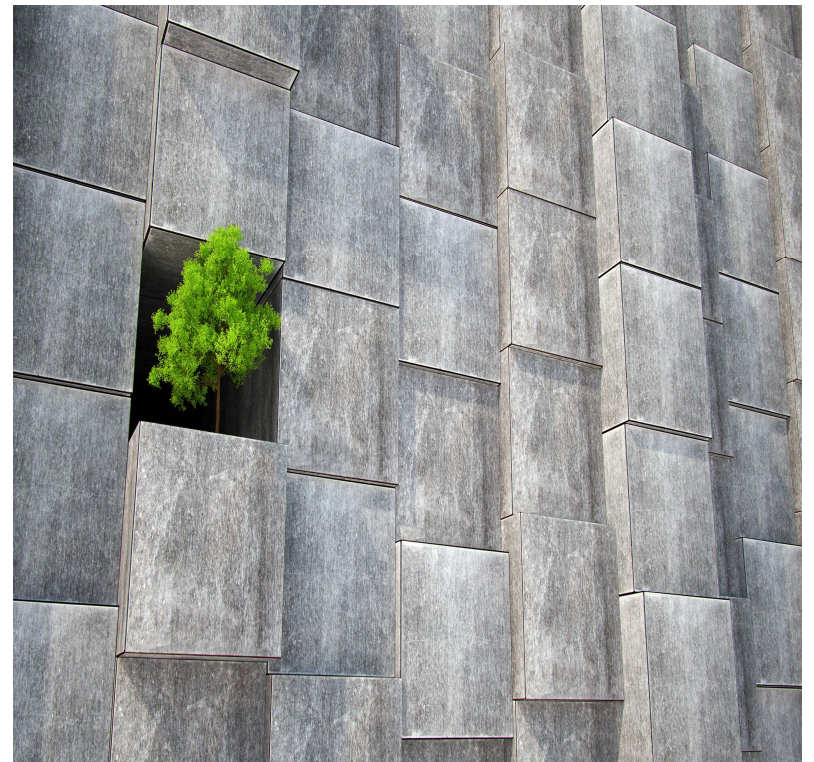
Regulatory Compliance: Stay updated with the latest regulations and ensure compliance. This can be complex, but it's essential for avoiding legal issues.

Market Volatility: Sustainable investments can be subject to market fluctuations. Diversify your portfolio to mitigate risks.

Cost Considerations: Initial costs can be high. Plan your budget carefully and look for sustainable finance products that fits your org objectives.

Resistance to Change: There may be resistance from within the organization. Address concerns through communication and demonstrate the long-term benefits of sustainable finance.

Measuring Impact: Quantifying the impact of sustainable finance initiatives can be difficult. Use standardized metrics and frameworks to assess performance.



Case studies – Successful integration of Sustainable Finance



DIGITAL FINANCING
CAN BE USED TO
INVOLVE CITIZENS IN
SUSTAINABLE
DEVELOPMENT



BELT & ROAD
INITIATIVE



SHIFTING FINANCE
FROM HIGH
EMITTING
INDUSTRIES



motif
INVESTING



A photograph of a brown bear standing in a forest. The bear is facing forward, looking slightly to the right. It has thick, brown fur and a dark nose. The background is a dense forest with green foliage and tree trunks. The text "Thank you" is overlaid on the left side of the image in a white, bold, sans-serif font.

Thank you