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Proposed Principles for Promoting and Developing Sustainable Finance in Sri Lanka

Background

In 2016, the Central Bank of Sri Lanka joined the International Finance Corporation (IFC) supported Sustainable Banking Network (SBN) with a view to promote sustainable finance practices in Sri Lanka. In February 2017, the Central Bank of Sri Lanka conducted a workshop providing a forum for senior staff of financial institutions and international partners, to discuss ways and means of encouraging sustainable financing practices in Sri Lanka. Following this workshop, the Central Bank initiated the process of developing a Sustainable Finance Road Map for Sri Lanka to facilitate and promote sustainable finance practices in consultation with relevant government agencies and financial sector stakeholders with the technical support from the IFC. This Road Map will provide guidance and support to Sri Lankan financial institutions in expanding engagement in sustainable finance, thereby contributing to the sustainable development of the Sri Lankan economy.

In order to facilitate developing this Road Map, below are the principles proposed by member departments of the steering committee consisting Bank Supervision, Supervision of Non-Bank Financial Institutions, Macroprudential and Surveillance, Supervision of Microfinance Institutions, Regional Development and Economic Research Departments. Going forward, the Central Bank expects to obtain views from the relevant stakeholders/financial associations on these principles to formulate the action plan to develop a Road Map for sustainable finance in Sri Lanka.

Principle 01 - Development of Green Financial Products and Services

Financial institutes are expected to offer and develop green banking products and services and cater towards a sustainable Sri Lanka with measures such as:

- Develop green saving products and specific funding offers
- Mobilise green resources
- Promote environmentally friendly investment practices
- Introduce policies on green financing products

- Cater to various emerging business opportunities arising in relation to Sustainable Finance
- Develop green loans products and classify such products into the categories of Organic/Bio dynamic Agriculture, Clean Energy, Clean Water, Green Transport, Green MSMEs etc

Principle 02 - Social and Environmentally Friendly Banking Practices

Financial institutes would initiate actions to integrate environmental and social considerations into the operations and business decisions and embed the following elements and actions in to the business:

- Develop processes to identification and management of social and environmental aspects and associated developments
- Establish appropriate policies to integrate social and environmental risk considerations into its decision making processes and enterprise risk management framework
- Increase supply of environmentally friendly financing
- Increase demand of environmentally friendly financial products
- Introduce green procurement policies, green buildings and green pledges by financial institutes
- Encourage to follow relevant international and local laws, standards and practices
- Consider energy efficiency and environmental impact in lending decisions
- Promote lending products for environmental friendly business
- Develop green statistics to calculate the impact on environment including reduction in carbon emissions, water pollution, etc. through green banking products
- Set up national level propaganda to practice social and environment friendly banking practices among general public using print and electronic media.

Principle 03 - Ethical Banking Practices

Financial institutes are expected to embed an intrinsic value chain of ethical practices parallel to the cycle of providing adequate financial products and services to the customers with measures such as:

- Develop an internal code of ethics in all financial institutes
    - Protect of customer rights,

  - Minimise customer discriminations
  - Curtail unnecessary burden on customers (high penalty rates and high service charges charged from customers)
- Implement a wide scope Corporate Social Responsibility initiatives
- Develop a customer charter format for all financial institutions by specifying their commitment of doing business with respect to all stakeholders
- Develop a common strategy to remove unethical finance business activities (i.e.. money laundering, etc.) from the sector
- Develop a mechanism to raise and capture potential cases of unethical/criminal behaviour

Principle 04 - Financial Inclusion

Financial sector should ensure that suitable financial products are available to unbanked and under banked communities, at a reasonable cost, and on a sustainable basis in order to provide people with greater security and privacy over financial status.

- Set up a proper mechanism to raise the level of Financial Literacy among the General Public
- Use digital tools to enhance financial inclusion (branchless banking, mobile banking etc.)
- Establish a national level financial inclusion strategies to motivate the general public.
  - Identify and remove potential barriers to enter the financial system (i.e.; language issues, complexity of financial products, branch expansion process and high documentation procedure) in addition to providing specific support for growth of SMEs, micro-enterprises and other minority groups
  - Provide “Viable support” to micro, small and medium enterprises including both financial accommodations as well as services such as investment, managerial, marketing, technical and administrative advice, technical assistance and training, and safe custody and storage facilities.

Principle 05 – Capacity Building

Capacity building efforts and technical guidance is paramount for successful implementation of sustainable finance:

- Develop and introduce training programmes for financial sector staff to understand implications and challenges of sustainable finance initiatives.
- Collaborate with the international community and relevant domestic stakeholders to share knowledge and building partnerships/networks
- Introduce e-learning and awareness programmes on sustainable finance to the general public
- Introduce relevant laws and international standards with the view of educating the financial sector staff on sustainable finance

Principle 06 - Transparency and Market Discipline

Transparency plays a pivotal role in communicating sustainable financial initiatives and developing market confidence. Further disclosures should also be enhanced in ways that relevant stakeholders are well informed about the following aspects of sustainability.

- Develop and implement a transparent Environmental, Social and Economical reporting framework
- Increase oversight and coordination of sustainable finance implementation
- Introduce additional disclosure requirements
- Issue guidelines to banks and monitor them regularly

Principle 07 - Protect Communities and Cultural Heritage

Communities have constantly found ways to systematise and transmit future generations their knowledge, life skills and competencies, in relation to natural and social environment. Cultural heritage can be used effectively towards contributing to sustainable development in various dimensions.

- Build sustainability related new opportunities in communities/geographies and develop strategies to cater to such opportunities.

- Encourage financial institutions to practice business to safeguard sites of archaeological, historical, cultural, artistic and religious significance as well as unique environmental features and cultural knowledge, and practices of communities.

Principle 08 - Stakeholder Collaboration and Communication

Financial institutions would explore the possibility of using effective communication techniques so that sustainability is represented as an integral part of the business strategy and it is well understood by customers, investors and other relevant parties in the financial markets.

- Ensure that sustainability initiatives focus on engaging employees across all organisational dimensions.
- Accelerate research on new technologies and create synergies with other industries.

Principle 09 - Management Oversight

The senior management and board members of financial institutes should initiate necessary action to develop green growth policy by educating themselves and their employees on sustainable finance while ensuring necessary governance and risk management framework is in place.

- Embed sustainable banking to the bank's core business
- Ensure that board of directors and senior management oversee the sustainable finance aspects in an oragnisation.
- Establish adequate governance to ensure accountability on sustainability issues at the highest levels across the bank
- Establish proper reporting lines and measurement criteria for sustainable financing
- Develop a set of common corporate governance principles for financial institutions to facilitate the implementation of sustainable finance Road Map.
- Devise a mechanism to encourage financial institutions to measure performance of their corporate governance practices periodically.

Action Plan:

- An action plan to implement these principles needs to be devised with the views/contribution of relevant stakeholders.