

SLBA
“SUSTAINABLE BANKING PRINCIPLES”

IMPLEMENTATION GUIDE

Sri Lanka Banks' Association
Sustainable
Banking Initiative

SLBA "SUSTAINABLE BANKING PRINCIPLE"

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Sri Lanka Banks' Association
Sustainable Banking Initiative

FMO Entrepreneurial Development Bank

KFW DEG

OeEB Oesterreichische Entwicklungsbank AG

PROPARCO GROUPE AGENCE FRANÇAISE DE DÉVELOPPEMENT

SLBA "SUSTAINABLE BANKING PRINCIPLE"

Principles	Implications for Banks	Icon
1 → Our Business Activities[1]: Environmental and Social Risk Management We will integrate environmental and social considerations into decision-making processes relating to our Business Activities to avoid, minimize or offset negative impacts.	Banks will among others need to: • Develop an **appropriate E&S policy statement** in line with financial products and services offered and with priority sectors; at minimum a strict review and potential decline of clients or engagements that do not comply with local E&S laws and regulations • Outline **appropriate E&S procedures** as a formal part of its client engagement and approval process to implement its E&S policy statement • E&S procedures among others include risk **screening**, risk **categorization** into high/ medium / low risks and determining required **due diligence** procedures, related **governance** provisions and risk **monitoring**	
2 → Our Business Operations[2]: Environmental and Social Footprint We will avoid, minimize or offset the negative impacts of our Business Operations on the environment and local communities in which we operate and, where possible, promote positive impacts.	Banks will among others need to: • Develop an "**Environmental Management Programme**", including water efficiency, waste water management, environmentally friendly construction etc. • Ensure compliance with relevant **labour and social standards** consistent with international good practice standards • Implement a "**Corporate Social Responsibility Program**" (CSR), aiming at the development of the communities in which its Business Operations are located	
3 → Rights of the respective stakeholders	Banks will among others need to: • Develop and implement a "**Human Rights Policy Statement**" (optionally as a part of a Sustainable Banking Policy Statement), upholding Human	

[1]**Business Activities**: The provision of financial products and services to clients including, but not limited to: corporate finance, investment banking (corporate advisory, structured lending and capital, trading), equity investments, project finance, project finance advisory, structured commodity finance, small and medium business lending, trade and leasing, and other forms of direct lending.

[2]**Business Operations**: The undertakings of employees and the physical human capital, assets and infrastructure (e.g. offices, branches, equipment) that a Bank engages in the course of facilitating its Business Activities.

SLBA "SUSTAINABLE BANKING PRINCIPLE"

Principles	Implications for Banks	Icon
We will respect relevant human rights principles[3] in our Business Operations and Business Activities.	Rights in both the Bank's operations as well as by its clients in line with relevant Sri Lankan and international provisions and treaties • Integrate **Human Rights due diligence** into E&S procedures (in limited high risk circumstances and as relevant to the particular business) • **Train** Bank's staff on Human Rights	
4 → Financial Inclusion We will promote financial inclusion, seeking to provide financial services to individuals and communities that traditionally have had limited or no access to the formal financial sector.	Banks will among others need to: • Provide commercially viable support to **MSME, small-scale entrepreneurs and start-ups** (or as permitted within the scope of the mission and objectives of the institution) • Provide services that **remove educational, gender and other barriers** to financial access • Improve access to Bank's facilities and services	
5 → E&S Governance We will implement robust and transparent E&S governance practices in our respective institutions and assess the E&S governance practices of our clients.	Banks will among others need to: • Establish **E&S governance responsibility**, including clear lines of responsibility and accountability • Develop **institutional E&S governance practices**, including governance structure, limits of authority, standards and codes of conduct to support implementation of its E&S policy statement • Actively **support key industry initiatives** aiming at addressing E&S governance issues with clients operating in sensitive sectors • Implement **compensation and incentives schemes** linked to E&S performance • Establish **E&S audit procedures** (internal, and where appropriate external) • Increase **public disclosure and dialogue**	

[3] As contained in the United Nations Declaration of Human Rights and the International Labour Organization

SLBA "SUSTAINABLE BANKING PRINCIPLE"

Principles	Implications for Banks	Icon
6 → Promote ethical finance We will not finance certain "excluded" activities, we will not tolerate unethical or criminal behaviour.	Banks will among others need to: • Develop and implement a **policy framework and procedures** that require a screening of clients and engagements for prohibited, excluded or significantly controversial activities, as defined in a jointly agreed upon **exclusion list.** • This exclusion list will include activities related to weapons and munitions, involving harmful or exploitive forms of forced or child labour, related to commercial logging in primary tropical moist forest, that impinge on lands owned by Indigenous Peoples without consent of such peoples as well as production or trade in any products deemed illegal under Sri Lankan regulations.	
7 → Promote "green economy" growth We will promote projects and other activities that contribute to a greener, cleaner economy in Sri Lanka.	Banks will among others need to: • Develop and implement a "**Business Strategy**" that adequately addresses green economy considerations and includes related financial products / services • **Educate and support clients** to understand the business benefits of "greener" operations	
8 → Capacity Building We will develop individual institutional and sector capacity necessary to identify, assess and manage the environmental and social risks and opportunities associated with our Business Activities and Business Operations.	Banks will among others need to: • Provide "**Sustainable Banking Training Sessions**" across management levels and operational functions • Create practical **E&S training tools and resources**	
9 → Collaborative Partnerships We will collaborate across the sector and leverage international	Banks will among others need to: • **Collaborate and cooperate** with other banks • Convene sector-wide **workshops and events** • Commit to **international standards** and best practice initiatives	

Principles	Implications for Banks	Icon
partnerships to accelerate our collective progress and move the sector as one, ensuring our approach is consistent with international standards and Sri Lankan development needs.	• Participate in Sri Lankan **sector level initiatives**	
10 → Promote transparency and accountability We will promote transparency and accountability regularly review and report on our progress in meeting these Principles at the individual institution and sector level.	Banks will among others need to: • Establish a "**Sustainable Banking Reporting Template**" and agree on the frequency, nature and format of internal and external reporting, preferably on an annual basis (potentially in line with Sustainability Report) • Set clear **targets** and related performance **indicators**, ensure the required systems are in place to **collect reliable data** • Contribute to **sector-level reporting**	
11 → No "race to the bottom" We will not compete with other banks on E&S issues, i.e. undermine our competitor on E&S requirements towards the credit taker.	Banks will among others need to: • Assure that for credits > 1 Mio USD and a tenure of > 1 year the stricter competitors E&S requirements are not used as a competitive advantage.	

Area within the banks	Relevant Principle
Lending Areas - Head of Risk/Credit Risk/Corporate Banking/Credit Administration, Relationship Managers, Credit Analysts, E&S Staff	1,3,(4,6,7),11
Operations / Human resources	2,3
Business Development	4,6,7
Governance, Compliance and Capacity Building	3, 5, 8, 9, 10 & 11.

INTRODUCTION AND OBJECTIVE OF DOCUMENT

The 11 Sri Lankan Bankers Association Sustainable Banking Principles (SLBA-SBP) have been developed under the leadership of the SLBA in 2015 and were signed by 18 Sri Lankan Banks on November 5, 2015.

The Principles are based on leading international sustainable finance standards, and tailored to the Sri Lankan context and development needs. Moreover, they detail the broader, related requirements of CBSL for the banking sector (as of November 20, 2017).

The Principles are in line with the commitment of the Sri Lankan banking sector to contribute to sustainable economic growth. Banks can foster positive economic impacts whilst protecting the communities and environments in which they operate.

The SLBA-SBP comprise **11 core subjects that environmentally and socially responsible financial institutions should address**. Implementers of the principles should evaluate their actions in each of the core subjects, to identify what they are doing in their current practices, and to set priorities for improvements. Broadly, the SLBA-SBP can be divided into 4 different categories. These are principles that concern:

1. Matters internal to the signatory Banks (3)
2. The Banks' relationship with their stakeholders (2)
3. The banks' product and service offerings and how they conduct business (4)
4. The banking sector itself (2)



Figure 1: Principles categories

COHERENCE TO CBSL APPROACH

The objective of this present document is to define certain minimum requirements for signatory banks and to provide tailor made guidance in the principles implementation phase.

The Principles and related implications shall be interpreted and applied by each Bank - subject to the minimum requirements - in line with its core values, business model, and risk management framework. The present "Implementation Guide" is relevant for different banking sectors. The term "Bank" will be used for all sector categories, unless specified differently.

The implementation guide has been prepared by a group of Sri Lankan and international experts and presented to a wider audience in January 2018. It is part of the internet based SLBA SBI platform (www.sustainablebanking.lk). Here a 100% interactive version of this Guide is available.

Signatory banks are supposed to start with the implementation of the SBP upon publication of this Guide at the latest (December 2018). It is expected that the full implementation of the Principles would not take longer than 2 years.

Coherence to CBSL Approach

CBSL, as a member of the Sustainable Banking Network, is instituting frameworks for sustainable finance with the Sustainable Finance Road Map. As part of this, the SLBA has collaboratively worked with the CBSL in developing the Sustainable Banking Initiative (SLBA SBI). The SBI also responds to the GOSL's Vision 2025 in providing the hard and soft frameworks for financial access and inclusivity with enhanced brand value associated with sustainable finance.

In December 2017, through their Sustainable Finance Principles, CBSL explicitly requested the SL banking sector to *"Develop a set of common corporate governance principles for financial institutions to facilitate the implementation of (the CBSL) sustainable finance Road Map".* **The SLBA-SBP are concrete answer to this request.**

The SL Banking sector considers the already existing 11 SLBA-SBP's to adequately respond to this request. The Principles encapsulate sustainable banking practices to manage Environmental & Social risks in projects financed, and to support banks and businesses to be greener, climate friendly and socially inclusive. Specifically, it can be noted that The existing 11 SLBA SBP align with the broad requirements of the CBSL Road Map, and along with an Implementation Guide, make an interpretation of the sustainable finance requirements that is directly relevant to the Banking sector (as confirmed by the detailed comparison between the two principle sets).

CONTENT OF THIS SLBA-SBI "PRINCIPLE IMPLEMENTATION GUIDE"

Finally, both CBSL approach as well as SLBI-SBP support the implementation of the Sustainable Development Goals. The present guide makes reference to the most relevant goals wherever meaningful, in order to demonstrate signatory Banks contribution to SDG.

Content of this SLBA-SBI "Principle Implementation Guide"

The present implementation guide includes specific guidelines for each of the 11 principles.

Each guideline has the following structure:

1. **Principle Text**
   Official wording of the Principle, as of November 15, 2015 and as signed by 18 SL Banks.
2. **What does this principle mean?**
   Rationale for this principle as well as a detailed description of the context and necessary working definitions. **Reference to related CBSL principles** or other requirements as formulated by GOSL
3. **How to implement this principle?**
   Detailed suggestion on how signatory Banks should ideally implement the respective principle. This includes a series of specific activities, described in detail and with a justification provided.
4. **Key Performance Indicator (KPI) and Reporting Requirements**
   Suggestion of specific key performance indicators - many of which quantifiable and auditable, milestones to be achieved as well as relevant deliverables. With the help of the KPI, Banks will be in a position to constantly measure the implementation status and benchmark among themselves.
5. **Relevant international Standards (in long version of this guide)**
   Reference to relevant international discussions, standards, agreements as well as guidance
6. **Links to good practices - further reading – toolkit (in long version of this guide)**
   This section provides for important resources relevant to the respective principle. Further, this section links to respective passages in the interactive SLBA-SBI toolkit as well as to relevant SLBA-SBI e-learning modules.

PRINCIPLE 1: OUR BUSINESS ACTIVITIES: ENVIRONMENTAL AND SOCIAL RISK MANAGEMENT

1. Principle 1: Our Business Activities: Environmental and Social Risk Management

"We will integrate environmental and social considerations into decision-making processes relating to our Business Activities to avoid, minimize or offset negative impacts."



1.1 WHAT DOES THIS PRINCIPLE MEAN?

Business Activities in this context are "*the provision of financial products and services to clients including, but not limited to: corporate finance, investment banking (corporate advisory, structured lending and capital, trading), equity investments, project finance, project finance advisory, structured commodity finance, small and medium business lending, trade and leasing, and other forms of direct lending*".

Environmental and social (E&S) risks related to Banks clients can translate into direct monetary losses for a Bank. Banks thus have not only an ethical but also an economic incentive to fully understand their clients' E&S performance, thereby strengthening their own Business Activities.

Environmental and social risks related to Banks clients business activities can include:

- Direct operational risks leading to potential financial losses;
- Reduced profitability due to higher costs;
- Substantial clean-up costs;
- Delayed construction and completion of projects;
- Penalties / sanctions levied by local authorities;
- Market loss due to boycott of clients;
- Financing risks (lower willingness of financiers to borrow/fund);
- Reputational risks for both the borrower and potentially the financing Bank, such as negative headlines or even NGO campaigns (possibly leading to loss of social licence to operate)
- Strikes of workers

The number of cases in which Banks have either lost money or reputation due to a failure of their client's to manage their E&S is rising and will certainly continue to rise (increasing accumulation of negative E&S impacts in productive sectors, public that is more aware of

E&S risks to them and prepared to act on their concerns, social media networks which allow to organise large scaled protest, fake news damaging banks reputation, etc..). As such, the involvement of all stakeholders and the "social licence to operate" become more and more important.

Experience globally shows that including a consideration of E&S issues in a financial transaction provides the Bank with a broader understanding of potential impacts, risks and opportunities associated with a Client's activities, which may not be apparent when just looking at the financials.

1.2 IMPLEMENTING PRINCIPLE #1

To increase more sustainable lending and to manage exposure to risks arising from a client's failure to adequately manage their E&S impacts and risks, a Bank can develop, implement and maintain policies and procedures, to guide the consideration of E&S risks through their credit decision making processes.

Typically, this is referred to as an Environmental & Social Management System (ESMS) and ultimately should be integrated into existing credit policies, procedures and risk compliance systems. It is suggested that this ESMS encompasses all new transactions financed by signatory banks when implementing this principle.

Such an ESMS typically has the following components, and **these have to be developed when implementing this principle:**

- Environmental & Social Policy Statement (CBSL requirement) as part of a Sustainable Banking Policy Statement or standalone: The E&S Policy statement is a commitment of the Bank to promote environmental and social sustainability in its Business Activities, approved by top-management and communicated to stakeholders. The policy should be in line with financial products and services offered and with priority sectors; at minimum a strict review and potential decline of clients or engagements that do not comply with local E&S laws and regulations. Ideally it refers to international good practices as articulated in the IFC Performance Standards, the ADB Environmental and Social Assessment Guidelines or similar. (Sample Policy Statement).
- Exclusion List: Adherence to a list of activities excluded from financing by the Bank (see Principle 6);
- ESMS Procedures Manual (CBSL requirement): The Manual is the core of the ESMS. It defines oversight mechanisms, system ownership, responsibilities and procedures necessary to achieve the E&S Policy commitment. It signposts integration of key process steps into the credit and compliance and risk management procedures.

The E&S procedures include:

1. E&S screening

2. E&S risk categorization into high/ medium / low risk
3. E&S due diligence
4. Legal provisions to cover E&S requirements in financing agreements
5. Client E&S performance reporting
6. Portfolio level E&S risk monitoring and management
7. Grievance mechanism (external / internal)
8. System compliance



Figure 4: ESMS process steps in relation to the respective credit process steps

Supporting documentation that a Bank shall develop to assist those tasked with overseeing and implementing the ESMS.

- Typical E&S responsibilities for the different roles across the ESMS e.g. responsibilities of E&S coordinator, relationship managers, credit analysts with respect to the ESMS, credit approval authorities, board committees; (See Principle 5: E&S Governance)
- Position/policy statements on sectors with high E&S risk profile that clearly articulate how the Bank undertakes financing in those sectors e.g. forestry, mining, tobacco, renewable energy (Sample from Standard Chartered)
- Position/policy statements on critical environmental and social issues e.g. human rights, climate change, water that clearly articulate the Bank's position on such matters
- E&S risk categorisation and screening model; (Sample)
- Register of national E&S laws for sectors typically financed, including summaries of key permits, licences.
- E&S questionnaires to assist analysts to assess environmental and social risks associated with the client's activities; (Sample)
- Guidance on due diligence requirements and standards to apply by level of E&S risk exposure

- E&S due diligence report template, including environmental and social action plan template (Sample)
- Client E&S reporting template and guidelines on reporting requirements commensurate with E&S risk level (Sample)
- E&S monitoring template for post-disbursement monitoring by the client (Sample)
- Example Terms of Reference for commissioning external E&S specialists; (Sample)
- List of pool of qualified experts; (Sample)
- Guidance on grievance mechanism

For project related facilities (corporate finance with a concrete project purpose as well as project finance) a ***transaction related methodology*** is required. Assuming that larger projects tend to have higher E&S risks, especially for sector that are classified as high risk, it is suggested that the following thresholds are to be applied:

Threshold (total project value)	E&S management minimum requirements
<3 Mio. US$	Screening against exclusion list, E&S categorisation, standard E&S legal building blocks
Higher than 3 Mio. US$ total project value and tenure > 1 year	Robust E&S Management System (ESMS) based on good international practices (DEG ESMS KPIs)
> 10 Mio. US$ total project value	External E&S due diligence[4] category A or (B and not requiring an EIA according to local law), ideally compliance with international standards (IFC, ADB, Equator Principles, or similar)

For other facilities (e.g. general short and long term corporate financing, SME finance, revolving working capital facilities, trade finance) a ***client related methodology*** is required, involving a client screening to better understand the impact of the operations they have (exclusion list, E&S management system, specific risk flags) as well as potentially adding value to clients business, realising positive impact, sharing knowledge.

For all facilities, a Bank needs to ensure sufficient capacities (depending on type of bank, size of loan book, at least one suitable trained E&S officer is typically required) and resources are mobilised to enable successful implementation of the ESMS. This is a key factor for success.

Key staff involved with the ESMS implementation in the Banks are in particular **Head of Risk/Credit Risk/Corporate Banking/Credit Administration, Relationship Managers, Credit Analysts, E&S Manager, E&S Officer/Coordinator** as well as internal training functions responsible to further train Bank staff and multiple exposures to the training within the participating banks.

[4] Pool of such experts trained in the framework of the SLBA-SBI

PRINCIPLE 2: OUR OWN BUSINESS OPERATIONS: ENVIRONMENTAL AND SOCIAL FOOTPRINT

1.3 KEY PERFORMANCE INDICATORS #1

Banks implementing this principle are supposed to achieve the KPIs as suggested below and report on the progress made.

- KfW/DEG Key Performance Indicators for setting up an ESMS
- Regular consulting of SLBA-SBI toolkit or equivalent
- Number of and value of transactions by financing type that have been categorised for E&S risk (by no and percentage; and by amount and percentage of total) for new facilities
- Number of and value of transactions by financing type that have been categorised for E&S risk (by no and percentage; and by amount and percentage of total) for facilities being renewed
- Breakdown of number of transactions and total value in Category A (high risk), Category B (medium risk) and Category C (low risk).

2. Principle 2: Our own Business Operations: Environmental and Social Footprint

"We will avoid, minimize or offset the negative impacts of our Business Operations on the environment and local communities in which we operate and, where possible, promote positive impacts."



2.1 WHAT DOES THIS PRINCIPLE MEAN?

Banks will consider and manage appropriately the direct impacts on the environment and society arising from its own Business Operations (E&S Footprint).

Business Operations in this context are "*the undertakings of employees and the physical human capital, assets and infrastructure (e.g. offices, branches, equipment) that a Bank engages in the course of facilitating its Business Activities*."

Through this the Bank is playing its part in contributing to the more efficient use of resources associated with the operation of a Bank as well as ensuring the health, safety and welfare of its employees and the public.

PRINCIPLE 2: OUR OWN BUSINESS OPERATIONS: ENVIRONMENTAL AND SOCIAL FOOTPRINT

Bank's operations may impact on the environment and social setting through the following activities:

- Generation of greenhouse gas (GHG) emissions (e.g., largely associated with consumption of electricity and fuels and business travel etc.)
- Energy consumption (e.g., lights, air conditioners/ fans, computers, printers, canteen/ kitchen equipment etc.)
- Consumption (toilets, canteen/ kitchen, garden, cleaning activities).
- Consumption of paper and other consumables.
- Waste generation (paper, printer cartridges, electronic waste, packaging, etc.)
- Management of human resources (employment and labour policies, working conditions, non-discrimination, gender equality, health and safety, etc.)
- Public accessibility and safety in banking premises

The principle further relates to Corporate Social Responsibility initiatives of Banks as well as environmental and social procurement policies.

2.2 IMPLEMENTING PRINCIPLE #2

A Bank will need to find its ways to avoid, minimise or offset negative impacts whilst implementing new means to achieve positive gains. This includes:

1. Development of an **E&S footprint management programme** with facilities management, which addresses:

    - **Climate change and greenhouse gas emissions reduction**: A Bank can support energy efficiencies by promoting or utilising renewable power generation, reducing business travel and commuting, and adopting green building standards and practices for operating and maintaining facilities and buildings. As per GRI G4 FS Banks should estimate the greenhouse gas (GHG) emissions resulting from their business travel as this represents one of the major direct impacts of financial institutions.
    - **Water Efficiency**: A Bank should promote the efficient use of water and seek to sustainably manage its use of water resources (i.e. reduce, reuse and recycle) that may include improved maintenance of infrastructure and recycling wastewater for grounds management.
    - **Waste Management**: A Bank should improve waste management by eliminating, reducing, and recycling product and paper waste; using not only less material (e.g. less paper, less packaging, etc.) but also implementing more efficient waste management systems to reduce the amount of waste produced and adopt safe mechanisms to dispose electronic waste.
    - **Environmentally friendly facilities construction and management:** A Bank should strive to improve the energy efficiency of its existing facilities and, where new

facilities are constructed, incorporate energy efficiency measures or renewable energies.

- **Health and Safety:** A Bank should also ensure appropriate health and safety considerations are taken into account in managing physical operations (e.g. firefighting equipment, first aid services, related trainings) and, where possible, provide positive improvements (e.g. disabled facilities etc.).

2. Compliance with applicable **labour and social standards** for own staff

A Bank should outline the minimum labour and social standards it will apply in managing its own Business Operations consistent with Sri Lankan requirements and international good practice standards.

Labour practices refer to fair treatment of all workers / employees, including those who are sub-contracted rather than being regular employees. Labour practices include hiring and promotion of employees / workers; disciplinary and grievance procedures; transfer and relocation of employees; termination of employment; training and skills development; health, safety and industrial hygiene, and any policy or practice affecting conditions at work.

Labour practices also include recognition of worker organizations and participation in collective bargaining, including tripartite (business – workers – government) consultation to address social issues related to employment. To implement the related principle with regard to labour practices, in particular, Banks Human Resources Department need to:

- Fulfil all legal obligations to workers / employees; eliminate discrimination in hiring and dismissals.
- Avoid contracting with partners, suppliers or sub-contractors who use unfair, exploitative or abusive labour practices.
- Provide good conditions of work and social protection. Comply with national laws and regulations; provide decent conditions of work in wages, hours of work, weekly rest holidays, health and safety, protection against sexual harassment in the working place, and maternity protection.
- Assuring gender equality. Inclusion of women in the workplace, diversity, equal pay for work of equal value and addressing the gender pay gap.
- Support social dialogue. Social dialogue involves negotiations, consultations and information exchanges between employers and employees. Depending on the size of the company, this can involve independently elected worker representatives or trade unions; it can also involve government where broader issues are at stake.
- Promote and maintain health and safety at work. Understand and control the health and safety risks involved in activities. Have a “safety first” policy; provide safety equipment and training needed for prevention of occupational diseases, accidents, and dealing with emergencies.

- Encourage human development. Provide skills development and career training opportunities. Respect the family responsibilities of employees by providing reasonable working hours and policies and facilities (such as child care facilities and parental leave) that can help employees achieve a work-life balance. Establish joint labour-management programs that promote health and well-being.

3. Development and implementation of a **sustainability initiatives as well as a Corporate Social Responsibility Program (CSR)**

   Banks should demonstrate Corporate Social Responsibility through a well-targeted CSR program, aligned with Sri Lanka's overall goals for economic and social development or with the needs of communities affected by the Banks investments (CBSL requirement).

   This programme should be developed in close cooperation with the Banks stakeholders, in particular affected communities and based on actual needs or strategically aligned to Banks core business rather than on preferences by the project developers or heads of the communities.

4. Requiring suppliers and service providers to follow **minimum environmental and social standards**, respectively selecting suppliers (among others) based on E&S criteria.

   A Bank should formulate **minimum E&S standards** as well as relevant contractual standard building blocks for Bank suppliers, contractors (e.g. cleaning or security services), and other third party service providers in the Bank's Sustainable Banking policy statement and procedures. **It needs to be noted that the Government Procurement Policy has covered all local and internationally accepted labour laws and standards.**

   The Bank should screen, engage and monitor such service providers to ensure they meet these standards. Banks should also specifically **practice environmental or social procurement** – evaluate suppliers of goods and services on whether they also are environmentally / socially friendly (at least on a random basis). Reporting metrics should include information about the number of suppliers, contractors, and third party service providers assessed and the standards that have been applied.

   The procurement practices should be fully in line with the related requirements of GOSL.

   A more detailed guide on how Banks can manage their E&S footprint can be found here: E&S Footprint Guide

2.3 HOW TO DEMONSTRATE PROGRESS – KEY PERFORMANCE INDICATORS #2

Continuous improvement year-on-year demonstrated through quantifying and reporting:

PRINCIPLE 2: OUR OWN BUSINESS OPERATIONS: ENVIRONMENTAL AND SOCIAL FOOTPRINT

E&S footprint

- Targets as per E&S footprint management program, in particular with regard to energy consumption / water consumption / waste management
- Optionally: GRI G4 requirements as per page 8 of financial sector supplement

Own social standards

- Presence of written social standards in line with at least local minimum requirements / Government Procurement Policy
- 100% compliance with relevant labour and social standards / 0 non conformities in audits performed by local authorities or others
- Information on numbers grievances received / solved / open
- Presence of grievance mechanism for own employees and subcontracted workforce
- Presence of a mechanism to penalise third parties for not following the expected minimum labour standards
- No. of relevant spot checks carried out
- Optionally relevant GRI indicators (labour practices, decent work, etc.)

CSR program

- Presence of a suitable CSR programme including necessary budget and other necessary resources
- KPI as per CSR program

Third parties

- E&S standards for third parties developed and signed off by top management
- E&S standards / legal clauses as part of all new contractual relationships with suppliers
- Collection of defined monitoring parameters or in the absence of such parameters spot checks at third parties.

PRINCIPLE 3: RIGHTS OF RESPECTIVE STAKEHOLDERS

3. Principle 3: Rights of respective stakeholders

"We will respect relevant human rights principles in our Business Operations and Business Activities."



3.1 WHAT DOES THIS PRINCIPLE MEAN?

A Sustainable Banking approach recognizes and respects stakeholder rights and concerns as well as human and labour rights in Bank's Business Operations and in its Business Activities.

Stakeholders in this context are those people and groups that are **directly affected by the actions of a Banks business.** These can include employees, suppliers, clients, community residents close to the business of clients. Communicating with them is one of the best ways a business can find out where it is doing a good job, and where it could improve. Although a Banks objectives may be limited to the interests of its owners, members, customers or constituents, other individuals or groups may also have rights, claims or specific interests that should be taken into account.

"Human rights" refers to respectful treatment of all individuals, regardless of any of their personal characteristics, just because they are human beings.

This principle requires a Bank to respect, consider and respond to the interests of its stakeholders in general and in particular with regard to human rights. More concretely, under this principle signatory Banks acknowledge that adhering to the United Nations Universal Declaration of Human Rights, the ILO conventions ratified by Sri Lanka, and the legal frameworks and laws and regulations governing human rights and employee rights in Sri Lanka is a constant objective that underlies all of their activities.

Banks should take particular care when dealing with situations characterized above in their Business Activities. Human rights violations that are associated with a Bank's Business Activities or clients will not only undermine the Bank's standing, it can also make the Bank vulnerable to public scrutiny.

With respect to human rights issues in the Business Operations these are discussed under principle 2.

3.2 IMPLEMENTING PRINCIPLE #3

PRINCIPLE 3: RIGHTS OF RESPECTIVE STAKEHOLDERS

As a matter of fact, Principle 3 is basically a cross cutting Principle, reminding the Banks to be aware of where breaches can arise.

Banks should respect human rights and recognize both their importance and their universality. In particular, Banks should:

- Respect and, where possible, promote the rights set out in the Universal Declaration of Human Rights (UNDHR)
- Respect the universality of these rights, that is, that they are indivisibly applicable in all countries, cultures and situations;
- In situations where human rights are not protected, take steps to respect human rights and avoid taking advantage of these situations; and
- In situations where the law or its implementation does not provide for adequate protection of human rights, adhere to the principle of respect for international norms of behaviour.

To assist employees and external stakeholders appreciate a Bank's stance on Human Rights and how this is implemented in practice the Bank can develop a Human Rights Policy statement. This policy statement can identify the types of human rights issues that the Bank is likely to come across in its operations and activities including the Bank's position on how to respond.

Human rights infringements could arise for a bank at various levels

Level	Example	How to handle (Cross reference to other principles)
in the own workplace	Infringement of labour rights, issues of security personal	Through Human Resources management policies and systems – refer to Principle 2 Through security management policies and procedures
in the supply chain	Poor labour practice in subcontracted cleaning staff provider	Through Procurement Policies (Principle 2)
in client activities	Financing projects that have one or more of the above mentioned risk issues	Through the E&S risk management system (see Principle 1) and ensuring that E&S risk identification and subsequent due diligence activities adequately cover Human Rights issues with the use of tools such as the UNEP FI Human Rights tool kit.

Where possible, a Bank will actively support those Business Activities that encourage and support respect for human rights and human health and safety, and application of labour

standards consistent with national laws and international conventions/agreements to which Sri Lanka is a party (e.g. ILO conventions ratified by Sri Lanka).

This Principle reminds us that as Banks we have a responsibility to exercise due diligence to identify, prevent and address actual or potential human rights infringements resulting from our financing and operations. This also comes with a responsibility to influence the behaviour of others (e.g. clients, suppliers, peer bank), when we become aware of a human rights violation that they may be party to.

In order to exercise such due diligence a Bank will need to integrate into its management systems means to:

- Determine whether existing and/or proposed client activities infringe on human rights and inform credit decision making (see Principle 1);
- Determine whether suppliers and service providers are in breach of human rights norms and inform procurement decisions;
- Establish fair mechanisms for dealing with human rights grievances if and when they are raised by employees and other directly affected parties.

When implementing this Principle the UNEP FI Human Rights Guidance Tool for the Financial Sector is a very useful tool for managing human rights issues relevant to the assessment of client relationships and transactions. It is designed as an online signposting tool providing information on human rights risks for financial institutions and covers:

- Background information on human rights and how they relate to finance
- Relevant international laws, standards and initiatives
- Key questions to assist in assessing human rights risks and impacts
- Issues relating to different industry sectors
- Key human rights topics
- Links to other relevant resource

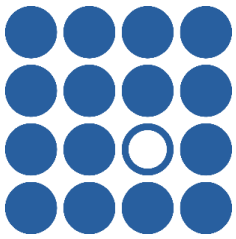
3.3 HOW TO DEMONSTRATE PROGRESS – KEY PERFORMANCE INDICATORS #3

- Presence of a “Human Rights Policy Statement” (optionally as a part of a Sustainable Banking Policy Statement), upholding Human Rights in both the Bank’s operations as well as by its clients in line with relevant Sri Lankan and international provisions and treaties
- Provisions that screening for potential Human Rights infringements is integrated into E&S risk management procedures
- Train Bank’s staff on directly affected parties issues and Human Rights (should be part of E&S related trainings or additional if previous training considered to be weak

on human rights topics).

4. Principle 4: Financial Inclusion

"We will promote financial inclusion, seeking to provide financial services to individuals and communities that traditionally have had limited or no access to the formal financial sector."



4.1 WHAT DOES THIS PRINCIPLE MEAN?

Financial inclusion means that individuals and businesses have access to useful and affordable financial products and services that meet their needs – transactions, payments, savings, credit and insurance – delivered in a responsible and sustainable way. Financial Inclusion needs to go hand in hand with **financial literacy**, i.e. a combination of awareness, knowledge, skills, attitude, and behaviours necessary to make sound financial decisions and ultimately achieve individual financial wellbeing

Financial access facilitates day-to-day living, and helps families and businesses plan for everything from long-term goals to unexpected emergencies. As accountholders, people are more likely to use other financial services, such as credit and insurance, to start and expand businesses, invest in education or health, manage risk, and weather financial shocks, which can improve the overall quality of their lives.

Financial inclusion has several benefits for individuals and households and for the economy as a whole. Higher levels of financial inclusion increase both economic efficiency and equity. Furthermore, financial inclusion can help families and businesses manage their day-to-day needs, to better cope with unexpected shocks and emergencies, and to undertake investment opportunities that enable them to improve their income and assets. Financial inclusion is hence a key enabler to reducing poverty and boosting prosperity.

Access to a transaction account is typically a first step toward broader financial inclusion as it allows people to store money, and send and receive payments. Over time a transaction account can also serve as a gateway to other financial services, which is why ensuring access to a transaction account is a critical first step.

PRINCIPLE 4: FINANCIAL INCLUSION

As such deepening access to financial services and products beyond holding an account becomes an important focus for the Sri Lanka banking sector and contribute to improving the resilience of businesses, in particular MSMEs and households.

Banking approaches should be in line with CBSL requirements. **CBSL attaches high priorities to financial inclusion**. It promotes financial inclusion promoted in several ways including concessionary development credit schemes through Participating Financial Institutions (PFIs), with a view of providing refinance facilities, interest subsidies and/or credit guarantees and credit supplementary services targeting development of agriculture and livestock, micro, small and medium scale enterprise (MSME) sectors, improving the financial inclusion and promoting balanced regional growth in the country.

It is understood that based on the findings of a Financial Inclusiveness Survey, a **National Strategy for Financial Inclusion** will be developed by CBSL considering the contemporary national financial inclusion strategies of peer countries. The views of domestic stakeholders, obtained through continuous dialogue, will be considered in drafting the proposed national strategy. (See CBSL Roadmap 2018).

Under this principle a Bank should develop an approach that promotes **accessible and affordable financial products and services to disadvantaged groups** who are either not served or are underserved by the formal financial sector. By catering to these needs, financial inclusion brings currently marginalised populations into the mainstream economy, improving their chances for resilient livelihoods and financial stability.

4.2 IMPLEMENTING PRINCIPLE #4

A Bank should take a practical approach to financial inclusion that is appropriate for its Business Activities through:

- **Assessment:** Identify 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 marginalised groups (CBSL requirement) or support SLBA in doing such an assessment. Further, identify cost-effective and user-friendly delivery channels (e.g. by using the existing operators in the field)
- **Developing and implementing a Financial Inclusion Policy Statement**: Either as a standalone document or as part of a Bank's wider Sustainable Banking Policy Statement, a financial inclusion policy statement should be developed and implemented which should be consistent with SLBA and CBSL financial inclusion strategy and targets.

- **MSME:** A Bank should look to provide commercially viable support to micro-enterprises, MSME, small-scale entrepreneurs, social or impact enterprises and start-ups (or as permitted within the scope of the mission and objectives of the institution) and to particular sectors such as agriculture. A review of and alternative approaches to interest rate and collateral policies may be required. Support to micro, small and medium enterprises should include 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 (CBSL requirement).
- **Improving financial literacy and institutional practices**: Develop a strategy / mechanism to raise the level of financial literacy among the general public (CBSL requirement). Specifically, a Bank should aim to provide services that remove educational, income, gender, age and other barriers to financial access. Banks should develop mechanisms and educational resources for consumers. Given the low financial literacy in Sri Lanka consumers should be informed accurately in a transparent and fair manner and have access to the Banks grievance mechanisms ('consumer protection initiatives'.) Related complaints may need specific solutions when assisting customers to find a way out of high indebtedness. The SMART campaign is a good example. Banks should further implement consumer protection framework as and when defined by the CBSL.
- **Improving access to Bank facilities and services**: A Bank should help increase financial inclusion in the country by reducing the transaction costs of reaching out to those in remote areas through technological innovations, such as branchless banking, mobile banking (CBSL requirement). Banks should explore the best options for increasing service delivery, particularly in northern and eastern areas. This could ultimately be through a technological innovation, agency banking or opening of branches, offering more flexible banking operation hours, reducing minimum requirements for account opening, improving access to physically challenged persons and increasing ATM facilities. SMS banking via the local languages may be one way of interacting e-banking with the rural people. Generally, technology-based delivery channels have proved to be the most effective for rural areas.
- **National level activities**: Contribute to national level financial inclusion strategy to motivate the general public (CBSL requirement).
- **Financial Inclusion reporting criteria:** Define and report on basic quantitative data including requirements to report consistent with current or future CBSL defined criteria.

4.3 HOW TO DEMONSTRATE PROGRESS – KEY PERFORMANCE INDICATORS #4

- Presence of appropriate financial inclusion policy statement and strategy, respectively a mentioning of related aspects in existing policy documents

- Use financial inclusion reporting criteria. This could encompass among others
  - number / kind of disadvantaged groups supported
  - number and acceptance of relevant new or innovative products or services offered,
  - number of products / services that provide commercially viable support to MSME, small-scale entrepreneurs and start-ups
  - number of mobile banking users / ATM machines,
  - number of individual and MSME accounts,
  - number of branches in rural areas (including in the northern and eastern parts of the country)
  - % of the micro SME development funds given to marginalized groups eg. poor, differently abled, ethnic and religious minorities, etc. as well as women borrowers
  - Number of consumer protection initiatives
- Active participation in related national activities / events (as evidenced by documentation of events)

5. Principle 5: E&S Governance

"We will implement robust and transparent E&S governance practices in our respective institutions and assess the E&S governance practices of our clients."



5.1 WHAT DOES THIS PRINCIPLE MEAN?

Governance is one of the most fundamental elements of sustainability and it is therefore important that Banks conform to internationally accepted standards on governance-related issues. Here we consider governance to comprise the rules, norms and processes for running a business including how they are structured, sustained, regulated and held accountable. In addition, the board of directors and its responsibility for ensuring that these are fit for purpose and that there is accountability, fairness and transparency in a company's relationship with all its stakeholders.

Specifically this Principle is concerned with ensuring that a Bank's governance responds to the challenge of delivering banking practices that achieve business growth but not at the expense of human development and the natural environment. As such this Principle is superordinate to all the other Principles.

PRINCIPLE 5: E&S GOVERNANCE

Specifically, the following elements of governance have an important role to play in the successful integration of sustainable banking practices across a Bank.

1. Enlightened **leadership** (Ethical leadership and corporate citizenship) to build and oversee a Bank that responds to the basic tenants of sustainable finance. This clearly includes the continuous desire to look for **sustainable business opportunities** and for providing adequate funds.
2. Oversight capacity (responsibilities of the Board of Directors, board committees etc. and their responsibility for the direction and oversight with respect to the achievement of more sustainable banking practices.)
3. Ethical conduct (treating others with honesty and fairness), Also refer to Principles 6 and 11
4. An **inclusive approach** to governance whereby the Board considers the legitimate interests and expectations of stakeholders other than shareholders and ensures the adequacy of management systems to respond appropriately (e.g. grievance mechanism). Also refer to Principles 2 and 10.
5. Robust **governance and management structures** to ensure comprehensive oversight and management of risk. With respect to more sustainable lending practices this includes the consideration of a broader array of risk factors associated with individual transactions and the portfolio as a whole (Principle 1 and 3).
6. **Accountability Structures** which assure that obligations on management to be answerable to the controlling interests of the Bank and on the Bank to be answerable to legal authorities with regard to laws and regulations can be carried out. (Principle 10)
7. **Compliance with law and non-binding rules (including SLBA-SBP)**, codes and standards that facilitate the building of a Bank that is better positioned to respond to changes in its operating environment and growing stakeholder expectations.
8. Governance of **IT infrastructure** for innovation (e.g. enabling a response to the financial inclusion ambitions) and operational efficiency.
9. **Independent assurance structures** (audit committees, internal & external assurance providers) as an integral component of risk management processes.
10. Alternative **grievance mechanisms**, internally and externally, for more effective management of disputes and grievances.
11. **Integrated reporting & disclosure**, overseen by the audit committee, whereby the Bank presents sufficient information to enable stakeholders to make a more informed assessment of the value created for the Bank and for others (Principle 10)

5.2 IMPLEMENTING PRINCIPLE #5

This principle should be implemented by the following activities:

PRINCIPLE 5: E&S GOVERNANCE

- Establish a **Board-level / Top Management Sustainable Banking Committee** to oversee the development of related commitments (including the SLBA SBP implementation), which should include governance and accountability for sustainability issues. Alternatively, integration of oversight responsibilities into existing committees terms of reference, e.g. risk committee, credit risk committee, audit committee and committee responsible for human resources.
- **Integrate E&S governance into risk committee and functions** (see also principle 1). A Bank's Sustainable Banking policies and procedures should include a governance structure, which details roles and responsibilities relating to managing E&S risks and opportunities.
- Develop a **Sustainable Banking Policy Statement**, including governance structure, limits of authority, compliance with law and non-binding rules, revisions required to existing functional responsibilities and management systems, integrated reporting requirements to support implementation of related commitments including the SLBA-SBP and CBSL requirements.
- **Revision of existing bank policies**, systems and functional responsibilities to ensure integration of sustainable banking practices. E.g. integration of E&S risk management into credit risk management, procurement policies and decision making criteria, human resource management policies and procedures.
- Develop and implement **grievance mechanisms**, internally (workers) and externally (customers and stakeholders), for more effective management of disputes (see also principle 3)
- Undertake compliance reviews, internal and external **audits to track compliance with and monitor the effectiveness of** sustainable banking policies, **systems and structures.** Among others the KPIs as formulated in this Implementation Guide should be part of the audit. (Measuring performance is CBSL requirement)
- Publicly report on / **disclose of E&S** information with regard to progress in implementing the E&S commitments and SLBA-SBP (see principle 3).
- This enables stakeholders to make a more informed assessment of the value created for the Bank and for others that in turn can affect the ability of the Bank create value for itself (CBSL requirement).
- Assess the **E&S governance practices of clients** (see under principle 1 as for example suggested in the IFC Performance Standard #1, "Assessment and Management of Environmental and Social Risks and Impacts"

The following presents recommendations for key governance elements that would enable the leadership of the Bank to respond adequately to all the Sri Lankan Sustainable Finance Principles and fulfil the specific requirements of Principle 5:

"Integrating Sustainability into elements of good corporate governance".

5.3 HOW TO DEMONSTRATE PROGRESS – KEY PERFORMANCE INDICATORS #5

- Presence of a **Sustainable Banking Policy Statement** that clearly includes E&S governance structures and explicitly refers to compliance with law and non-binding rules, codes and standards to support implementation of related commitments including the SLBA-SBP and CBSL requirements.
- Presence of an internal and an external **grievance mechanism** / details on grievances managed.
- Evidence of regular **internal or external audits** (consistent with standard audit processes and based on KPI of this document).
- **Public disclosure** of E&S information (as per principle 10 and at least as defined in the SLBA format - to be developed)
- Minutes of board-level **Sustainable Banking Committee** (or equivalent committee) meetings

6. Principle 6: Promote ethical finance

"We will not finance certain "excluded" activities, we will not tolerate unethical or criminal behaviour."



6.1 WHAT DOES THIS PRINCIPLE MEAN?

A Bank should operate ethically. A Bank's behaviour should be based on the values of honesty, equity and integrity. These values imply a concern for and typically reflects a strong value position of people and the environment and a commitment to address the impact of its activities and decisions on stakeholders.

One aspect of an ethical approach to banking is to exclude particular activities and the proceeds of being financed or banked. Such an exclusion list might include activities involving the production and trade in production or trade in any products deemed illegal under national laws or international conventions, weapons and munitions, animal testing, harmful or exploitive forms of forced or child labour, commercial logging in primary tropical moist forest, etc.

Another, is the demonstration of a Zero-Tolerance Policy Statement on corrupt or criminal behaviour and ensure that sufficient risk frameworks and systems are in place to eliminate money laundering, anti-terrorism financing and corrupt business practices.

6.2 IMPLEMENTING PRINCIPLE #6

PRINCIPLE 6: PROMOTE ETHICAL FINANCE

Under this Principle the following practices are recommended for a Bank to promote ethical behaviour:

- Identifying and stating its core values and principles through Bank policies (e.g.Code of Ethics, Code of Conduct, Exclusion Lists), which in turn are informed by changes in stakeholder expectations. This needs to be consistent with the principles outlined in the SLBA-SBP. (CBSL requirement)
- Develop and implement procedures that require a screening of clients and engagements for prohibited, excluded or significantly controversial activities, as defined in their exclusion list (either the joint exclusion list or the stricter "own" exclusion list). This screening needs to be part of the ESMS (as described under Principle 1). For reference, an internationally accepted exclusion list can be found here.
- Developing and using governance structures that promote and incentivise ethical behaviour within the Bank, in its decision making and in its interactions with others
- Identifying, adopting and applying standards of ethical behaviour appropriate to its purpose and activities (see also Principle 5)
- Defining and communicating the standards of ethical behaviour expected from owners, directors, managers, personnel, suppliers, contractors.
- Preventing or resolving conflicts of interest throughout the Bank that could otherwise lead to unethical behaviour;
- Establishing and maintaining oversight mechanisms and controls to monitor, support and enforce ethical behaviour;
- Establishing and maintaining mechanisms to facilitate the reporting of unethical behaviour without fear of reprisal;
- Recognizing and addressing situations where local laws and regulations either do not exist or conflict with ethical behaviour;
- Seek to finance clients that demonstrate a strong commitment, capacity and track record relating to ethics and corporate governance. A Bank shall not knowingly finance any client activities that are linked to or involved in criminal cases related to corruption and unfair competition as prescribed by related Sri Lankan laws.
- Protect customer rights and minimize customer discriminations, curtail unnecessary burden on customers (high penalty rates and high service charges charged from customers) (CBSL requirement)
- Contribute to develop:
    - an exclusion list jointly agreed upon by the SL banking sector, e.g. under the umbrella of the SLBA-SBI or the CBSL.
    - a customer charter format for all financial institutions by specifying their commitment of doing business with respect to all stakeholders (CBSL requirement)
    - a sector wide strategy to remove unethical finance business activities (i.e. exclusion list, anti-money laundering, etc.) (CBSL requirement)

  - a mechanism to raise and capture potential cases of unethical/criminal behaviour (CBSL requirement)
- As per GRI G4 FS 56-58
  - Describe the organization's values, principles, standards and norms of behaviour such as codes of conduct and codes of ethics.
  - Report the internal and external mechanisms for seeking advice on ethical and lawful behaviour, and matters related to organizational integrity, such as helplines or advice lines.
  - Report the internal and external mechanisms for reporting concerns about unethical or unlawful behaviour, and matters related to organizational integrity, such as escalation through line management, whistleblowing mechanisms or hotlines.

6.3 HOW TO DEMONSTRATE PROGRESS – KEY PERFORMANCE INDICATORS #6

- Presence of a Code of Ethics and mechanisms to raise potential cases of unethical or criminal behaviour
- Presence of list of excluded activities in line with national or international good practices
- Active contribution to related discussions at the sector level / national level (SLBA or CBSL)
- Number of complaints received by customers for unethical / unfair treatment (via an anonymous hotline, if necessary)
- 0 cases of criminal / corrupt / money laundering cases related to the Banks transactions
- Optionally: GRI G4 FS reporting requirements (G4 56-58)

7. Principle 7: Promote "green economy growth"

"We will promote projects and other activities that contribute to a greener, cleaner economy in Sri Lanka."



7.1 WHAT DOES THIS PRINCIPLE MEAN?

PRINCIPLE 7: PROMOTE "GREEN ECONOMY GROWTH"

In an economic system, a bank fulfils an important role: it is an intermediary between borrowers and lenders of money. This intermediary function centres on bringing together and co-ordinating savings and investments. As such, the financial sector as a whole (not only banks) is pivotal in either financing damaging activities, or in using the power of money to promote more positive practices or projects.

Thus, **sustainable finance** can be considered as "the provision of financial capital and risk management products and services in ways that promote or do not harm economic prosperity, the ecology and community well-being.[5]"

Over the years we have seen sustainable finance practices fall into two aspects:

1. The first is, mobilising private capital for green/socially inclusive investments through: loan origination and credit provision; retail savings products; intermediation and capital markets activities.
2. The second is concerned with integrating sustainability considerations across bank strategy, governance and risk management to manage E&S risks of financing activities and achieve positive impact which Principle 1 is concerned with.

More recently is the call for private capital to bridge the funding gap for sustainable development and the attainment of the Sustainable Development Goals. An estimated $5-7 trillion a year until 2030 is needed to realise the SDGs worldwide, including investments into infrastructure, clean energy, water and sanitation and agriculture. The greater part of the necessary financing and investment will need to come from private finance. This in turn is driving a need for a new, impact-based approach to financing, based on a holistic consideration of the three pillars of sustainable development

This Principle is primarily concerned with the role of the Sri Lankan banking sector in **mobilising private capital for sustainable growth and more specifically green growth**.

It can in part be achieved by identifying opportunities when vetting transactions to improve a client's operations, for example installation of cleaner production technologies, waste water treatment and recycling facilities.

More importantly, it requires innovation within the Bank to identify new products and services and new markets that address the challenges of sustainable economic growth.

1. Financing new growth industries or more sustainable technologies for existing industries:
    - Renewable energy, clean technologies, energy & water efficient technologies, cleaner production,
    - New technologies for climate change adaptation and resource scarcity e.g. climate resilient crops and seeds, cultivation (e.g. hydroponics) and irrigation technologies

[5] Forum for the Future, 2002

- New smart materials to address challenges such as plastic waste.

2. New products and services
   - Green bonds, green funds
   - Servicing the underserved & unbanked: Middle market between MSMEs and large business; microfinance, mobile banking, financial literacy - Principle 4,
   - Impact investments: investments that maximize environmental & social benefits with financial returns:

7.2 IMPLEMENTING PRINCIPLE #7

A Bank should develop and implement a **business strategy** that pursues emerging business opportunities in the green economy (CBSL requirement) be it existing products and services in new markets, or the identification of new products and services.

The responsibility for this strategy is typically with the business development department (research and development of markets, products and services).

In doing so the Bank should also seek **consistency with the strategy of the Ministry of Environment and the Central Bank of Sri Lanka** for encouraging green economy growth, i.e. in particular

- Focus on strategic growth areas identified by relevant authorities
- Develop and offer green loans products in identified sectors (e.g. Commercial Scale Organic Agriculture and Dairy Entrepreneurship / Rooftop solar / etc.)
- Adhere to any regulations, discounts, and green incentives advocated.

Banks will further **classify its products into the categories** of Organic/Bio dynamic Agriculture, Clean Energy, Clean Water, Green Transport, Green MSMEs, as suggested by CBSL (CBSL requirement).

In addition, specific measures should be taken to **educate and support clients** to understand the business benefits of "greener" operations.

Banks will also need to make efforts in **mobilising funds** from international sources (e.g. DFIs) that have been earmarked to be invested into green economic growth. (CBSL requirement)

Examples of how a Bank could implement "green" products and services are:

- **Personal banking** - green saving products and specific funding offers (CBSL requirement), this includes green credit/debit cards; green savings accounts; green credit schemes; green mortgages; alternative fuel vehicles
- **MSME and Corporate Banking** - assigning dedicated amounts of investment capital for green lending; green leasing for corporate real estate (Banks E&S managers

could provide consulting services on environmental best practices). Financing circular economy, corporate lending for companies in their sustainability transition

- **Project finance** - preferentially financing projects that aim to have a positive environmental impact (see above clusters, e.g. sustainable energy infrastructure like renewable energies, smart meters, energy efficiency, green transport projects, environmentally compatible telecommunication solutions, water and waste projects, large-scale green commercial developments, shopping centres etc.); support and develop new finance opportunities for new projects in the above mentioned clusters;
- **Investment Banking** - Investment portfolios focused on environmentally responsible clients and projects; reward and financing schemes for the reduction of GHGs or pollutants; possibly issue green or positive impact bonds, offer preferential financing conditions (e.g. rates, maturity, grace period, eligibility criteria, etc.) for profitable clients or investments that demonstrate strong E&S performance, E&S considerations in the context of mergers and acquisitions and IPOs
- **Trade Finance:** Certified sustainable soft commodities, sustainable shipment letter of credit, sustainable trade funds

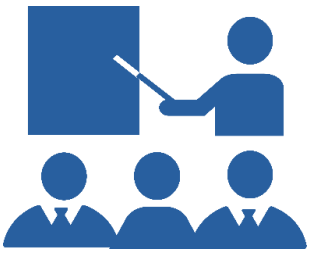
7.3 HOW TO DEMONSTRATE PROGRESS – KEY PERFORMANCE INDICATORS #7

- Presence of a "**Business Strategy**" that adequately addresses green economy considerations and includes related financial products / services. Among others this strategy needs to clearly define green/ sustainable products and services appropriate for the Bank's core business and growth objectives as well as any discounts, premiums and other incentives appropriate for each product and service and the benefits to customers
- Presence and systematic tracking of **key performance indicators** and targets that describe the related ambitions, development and success (as a result of the business strategy)
- Investments (in number and amount) into **transactions related to green economy** in general and the sector categories as suggested by CBSL in particular.
- **Capital mobilised** / spent from international sources earmarked for green economic growth / sustainable economic growth
- Number of **educational / support activities** for clients

8. Principle 8: Capacity Building

PRINCIPLE 8: CAPACITY BUILDING

"We will develop individual institutional and sector capacity necessary to identify, assess and manage the environmental and social risks and opportunities associated with our Business Activities and Business Operations."



8.1 WHAT DOES THIS PRINCIPLE MEAN?

Capacity building is the process by which Banks obtain, improve, and retain the skills and knowledge needed to do their jobs competently.

In applying this Principle, a Bank **commits to developing the right skills, knowledge and capacity for management and employees to meet individual targets in connection with sustainable banking commitments including the 11 SLBA-SBP.** A Bank will need to provide the necessary resources and support to equip, coach and train employees as required to achieve more sustainable banking.

To successfully identify, assess and manage relevant E&S risks and opportunities, a Bank's employees must be able to understand how and when E&S issues may be associated with the Bank's Business Activities and Business Operations. Therefore knowledge, skills and capacity relating to the various Sustainable Banking issues must be built from top levels of management to all relevant employees.

Developing knowledge and awareness of sustainability issues in general and E&S issues in particular will be a continuous process for both individual Banks and the sector as a whole. Banks should seek to collaborate with one another, for example, by establishing a community of practice for shared learning wherever possible to provide for consistency in application of standards and practices. A good example for such a community is the SLBA-SBI and its IT based platform.

8.2 IMPLEMENTING PRINCIPLE #8

Develop institutional Sustainable Banking capacity

- Identification of **key roles and responsibilities** across Bank functions to deliver against sustainable banking capacity development commitments within Business Activities and Business Operations in general and the implementation of the SLBA SBP in particular (see Principle 5).

- Development of a **Sustainable Banking capacity development plan** in cooperation with the banks Human Resources Department, the unit responsible for ESMS implementation and the Sustainable Banking Committee - including definition of training needs, number of trainings / segmentation of trainees / curriculum
- Development and delivering Sustainable Banking training sessions for **board and senior management** across all relevant business units.
- Creation of **awareness of sustainability and E&S issues among all employees** and development of related training programs. All employees should have a basic understanding as to why sustainability is important to the Bank's activities. This understanding will broaden the base for the internalization of sustainability attitudes.
- Development and implementation of **training courses** to address E&S issues as part of the Bank's learning and development curricula. The fulfilment of the SLBA-SBP will require information and training that goes far beyond basic awareness. The following 6 modules are considered to be suitable for in-house training courses.

Contribute to the Sri Lankan banking sector's capacity

- Sector collaboration and shared learning platforms to create awareness and promote the training of Banks' personnel on practical implementation of applicable standards and practices.
- Engage relevant third parties on a regular basis to build sector level capacity and skills.
- Participation in Sustainable Banking Communities of Practice.
- Actively contribute to the creation of practical E&S training tools and resources, like the SLBA SBI platform and the integration of the platform into the Banks own IT systems and training calendars

Regularly report on Sustainable Banking Capacity

- Development of reporting criteria: Training / Coaching / Capacity development programs developed and delivered (number or trainings offered, frequency, format, content, learning outcomes, numbers of participants trained and in what functions/roles within the Bank, examination results, pass/fail rates, total training hours per year etc.).
- Sustainable Banking capacity building reporting to occur annually as part of Sustainable Banking report.

8.3 HOW TO DEMONSTRATE PROGRESS – KEY PERFORMANCE INDICATORS #8

- Active participation of bank staff in the SLBA-SBI E-learning courses and utilisation of toolbox as demonstrated by user statistics / certificates awarded (to be defined)
- Numbers of relevant key staff trained (as defined above) in SLBA-SBI E-learning courses, live banker's trainings or trainings through trained consultants / all of which successfully received a training certificate (number of certificates received per Bank and year) – target 100% of relevant key staff (e.g. investment manager / credit officer, internal audit functions, risk manager)
- Number of initiatives supported that educate and support clients to understand the business benefits of "greener" operations
- Evidence of integration of the SLBA-SBI IT platform into the Banks own IT systems and training calendars

9. Principle 9: Collaborative Partnerships

"We will collaborate across the sector and leverage international partnerships to accelerate our collective progress and move the sector as one, ensuring our approach is consistent with international standards and Sri Lankan development needs."



9.1 WHAT DOES THIS PRINCIPLE MEAN?

Collaborative partnerships recognise and support the role the Banks can play in further developing the Sri Lankan economy and society whilst acknowledging that the Banks can do more together than they could acting alone.

In applying this Principle, the Banks should collaborate in a sector-wide effort to drive improved standards and progress of Sustainable Banking in Sri Lanka consistent with international standards and emerging industry best practice. The SLBA SBI Initiative would be considered to be the roof under which this collaboration is supposed to take place.

Banks should further actively participate in international and multi-stakeholder initiatives so as to benefit from exposure, as well as contribute, to international standards and best practice, whilst lending credibility and authority to their institutional commitments under the Principles.

In parallel with and in addition to such memberships, Banks should be mindful of taking part in activities that seek to inform the public about sustainability issues, to increase awareness of them, and to encourage others to do the same. Such activities may be sector-specific training, seminars, and conferences etc. but they may also take the form of social responsibility projects involving a much broader audience.

Further, collaborative partnerships shall be used to identify economic trends that have a relevance to sustainable banking in Sri Lanka in the coming years. This could e.g. include more digital based, circular, sharing and gig economies. (Key word: acting as a "think tank")

9.2 IMPLEMENTING PRINCIPLE #9

To implement this Principle, a Bank should:

- **Organise / participate in** meetings and capacity building workshops to further the implementation of the SLBA-SBP.
- **Convene sector-wide workshops and events**: Banks should collaborate to build greater Sustainable Banking capacity and impact by convening sector-wide workshops and events to discuss best practice relevant to the Sri Lankan context. Capacity building workshops and training programmes, designed and resourced collaboratively could be utilised to create a consistent level of understanding and awareness across the sector. Initiatives could include collaboration between Banks and clients in varying industries on addressing specific sustainability and Sri Lankan development challenges.
- **Commit to international standards and best practice initiatives**: Banks should commit to relevant international best practice standards and initiatives to demonstrate and profile Sri Lankan Banks' commitment to Sustainable Banking (e.g. Principles for Responsible Investment (PRI), Equator Principles, IFC Performance Standards, the United Nations Global Compact, Millennium Development Goals, UNEP-FI, the Global Reporting Initiative).
- **Establish and participate in Sri Lankan sector level initiatives**: In collaboration with the CBSL and the SLBA, Banks should work together to promote sector-specific initiatives or economic development objective and leverage a collective approach for greater impact.
- **Cooperate / discuss beyond:** Banks across the sector should commit to collaborate with each other as well as engage relevant third parties such as the government, clients, development agencies, development finance institutions, industry associations, non-governmental organisations, external experts, academics and others to build sector level capacity and skills.

- **Acting as a think tank in cooperation with CBSL and Institute of Bankers:** Banks should identify and find solution to new economic trends. This would involve among others:
    - Manage and leverage developments in digital finance and fourth industrial revolution towards sustainable development.
    - Design and implement financial solutions that promote uptake of circular, sharing and gig economy

9.3 HOW TO DEMONSTRATE PROGRESS – KEY PERFORMANCE INDICATORS #9

- Number of collaborative meetings (across banks or departments, with external stakeholders) attended by relevant staff
- Number of relevant workshops attended
- Number of practices / case studies / lessons learnt contributed to sustainable banking communities as demonstrated by meeting proceedings
- Number of international standards the Bank commits to / bases its policies and procedures on, as demonstrated in the Annual report

10. Principle 10: Promote transparency and accountability

"We will promote transparency and accountability regularly review and report on our progress in meeting these Principles at the individual institution and sector level."



10.1 WHAT DOES THIS PRINCIPLE MEAN?

A Bank should be **transparent** in its decisions and activities that impact on society and the environment.

A Bank should disclose in a clear, accurate and complete manner, and to a reasonable and sufficient degree, the policies, decisions and activities for which it is responsible, including their known and likely impacts on society and the environment. This information should be readily available, directly accessible and understandable to those who have been, or may be, affected in significant ways by the Bank. It should be timely and factual and be presented in a clear and objective manner so as to enable stakeholders to accurately assess the impact that the Bank's decisions and activities have on their respective interests.

PRINCIPLE 10: PROMOTE TRANSPARENCY AND ACCOUNTABILITY

The principle of transparency does not require that proprietary information be made public, nor does it involve providing information that is privileged or that would breach legal, commercial, security or personal privacy obligations.

Further, a Bank should be **accountable** for its impacts on society, the economy and the environment. This suggests that a Bank should accept appropriate scrutiny and also accept a duty to respond to this scrutiny. Accountability also encompasses accepting responsibility where wrongdoing has occurred, taking the appropriate measures to remedy the wrongdoing and taking action to prevent it from being repeated.

Accountability involves an obligation on management to be answerable to the controlling interests of the Bank and on the Bank to be answerable to legal authorities with regard to laws and regulations. Being accountable will have a positive impact on both the Bank and society. The degree of accountability may vary, but should always correspond to the amount or extent of authority.

To achieve transparency and accountability, Banks will need to **publicly report** on related information, preferably using global frameworks such as GRI standards, Integrated Reporting, etc. In the course of implementing the SLBA Sustainable Banking Principles, a Bank shall implement strong reporting practices that are characterized by a high degree of transparency and accountability and evidence quantifiable progress against related commitments, while recognizing the need to maintain client confidentiality. Further, a Bank will actively contribute to a transparent reporting at the sector level carried out by relevant organizations (e.g. SLBA, CBSL) based on predefined reporting formats.

10.2 IMPLEMENTING PRINCIPLE #10

A primary goal for reporting is to publicly establish a Bank's commitment to responsible banking, regardless of existing shortcomings. The report should be kept brief, accessible and reader-friendly. Creating a report provides an opportunity to reflect, evaluate and assess your sustainability efforts. The report should:

- Identify the achievements in each of the 11 principles core subjects.
- In case a Bank chooses not to report on some of the core subjects, it should give a brief explanation of why not, and commit to examining this area at a specific time in the future
- Establish your credibility by identifying problem areas (not avoiding them)
- Describe how and when stakeholders have been involved in your work on social responsibility
- Explain plans for improvement in a section such as "the way forward". In future reports you can discuss your progress

PRINCIPLE 10: PROMOTE TRANSPARENCY AND ACCOUNTABILITY

The report can be used to engage shareholders, investors, customers, stakeholders and the local community. It is important to publish or distribute the report in an accessible manner (online; print copies for those who lack electronic access, etc.).

Banks will among others need to:

1. Decide to follow the template "**SLBA Sustainable Banking Principles Reporting Template**" as suggested by the SLBA based on the KPIs of this document, adapt this template as appropriate or develop an own such template. The template will need to include reporting requirements under all 11 principles.
2. Agree on the **responsibilities, frequency, nature** and format of internal and external reporting.
3. Provide internal reports to senior and/or strategic **decision making bodies** within the Bank.
4. Set clear **targets** and related performance **indicators,** ideally showing year-on-year targets and progress where possible, ensure the required systems are in place to **collect reliable data.**
5. **Assess, measure and monitor** the Banks progress on sustainable finance.
6. Proactively and regularly disclose information publicly. **Publicly report on progress**, successes and relevant dilemmas in implementing each of the SLBA-SBP as well as around relevant themes contained in each principle. For each principle a Bank should aim to outline what initiatives and strategies they have delivered, progress made on these (including key metrics and impact measurements).
7. **Seek feedback and dialogue** between the Bank and its various stakeholders (clients, regulators, rating agencies and other stakeholders) to gain mutual understanding on the value of disclosure.

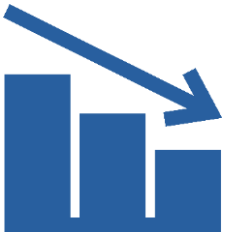
10.3 HOW TO DEMONSTRATE PROGRESS – KEY PERFORMANCE INDICATORS #10

- Presence of suitable reporting format (see Appendix). The report will need to include at least reporting requirements as mentioned separately under each of the 11 principles.
- Presence of adequate reporting modalities (including responsibilities) in writing. Minimum annually.
- Presence of own KPIs or KPIs as suggested by SLBA – at minimum those KPIs as mentioned in this document
- Publicly disclosed SLBA SBP reporting (CBSL requirement) or equivalent
- Contribution in acceptable form and substance to sector reporting, at least annually

PRINCIPLE 11: NO RACE TO THE BOTTOM

11. Principle 11: No race to the bottom

"We will not compete with other banks on E&S issues, i.e. undermine our competitor on E&S requirements towards the credit taker."



11.1 WHAT DOES THIS PRINCIPLE MEAN?

Whilst a sustainable banking approach can drive growth and business opportunities for a Bank, the Principles are designed to encourage collaboration / coordination and movement as a whole rather than drive competition and distance between individual Banks.

This principle means that signatory Banks are committing towards fair play, i.e. by no means will a Bank lower / waive their E&S standards and principles (including the 11 SLBA-SBP) for competitive reasons, particularly, when it comes to the implementation of Principle 1 and the integration of E&S risk considerations in credit decision making processes.

The principle is particularly relevant for **transactions > 1 Mio USD and a tenure of > 1 year**, as it can be assumed that E&S risks are typically higher for larger projects and these transactions typically require an in-depth E&S due diligence from signatory Banks (see also Principle 1 / Thresholds)

While - at the moment - there is **no arbitrator** involved in potential conflicts between two (or more) signatory Banks, it is self-explanatory that abiding to this principle is a question of business ethics and fair play for signatory Banks.

11.2 IMPLEMENTING PRINCIPLE #11

Implementation of the SLBA-SBP by all Sri Lankan Banks will create a level playing field and therefore will be key when avoiding a race to the bottom.

Banks can use their relationships with other Banks to promote positive outcomes. By building good long-term relationships, Banks are most likely to develop reliable partners, and to jointly practice effective responsible banking. Respect for the rule of law, signed commitments, accountability, transparency, and honesty are the key principles to put into action to generally achieve fair operating practices.

PRINCIPLE 11: NO RACE TO THE BOTTOM

In particular, Banks will among others need to assure that in particular for transactions > 1 Mio USD and a tenure of > 1 year the stricter competitors E&S requirements are not used as a competitive advantage. Banks adopting stricter requirements are encouraged to develop lines of arguments to demonstrate the business case for these higher standards **vis a vis their clients**.

This can be done through

- Presenting relevant case studies (see SLBA-SBI platform - case studies)
- Highlighting related opportunities (see SLBA-SBI platform - training module)
- „Demystifying“ the higher standards by explaining the differences (ideally cost / benefit analysis)
- Assisting the client in better understanding all related risks from regulators other than the environmental authorities

Respective Bank staff (in particular corporate or project finance departments / credit risk departments) should be specifically instructed by the top management in writing about the importance of this principle.

It is important that Bank employees (in particular those with responsibilities for the implementation of Principle 1) are informed, by top management, about the importance of this Principle.

11.3 HOW TO DEMONSTRATE PROGRESS – KEY PERFORMANCE INDICATORS #11

- 100% of relevant staff members aware of this Principle
- 0 cases reported where the Bank has undermined competitors on E&S requirements (firstly, to SLBA and only if this cannot be sorted to CBSL)
- As per Principle 8 “Capacity building” above (all staff of relevant departments successfully completed the SLBA-SBI training)
- Supporting / participation in SLBA working groups of implementing the SBP.
- Reporting on status of implementation as well as on specific activities conducted during the year under this umbrella