NATIONAL CLIMATE FINANCE STRATEGY OF SRI LANKA 2025 - 2030

FINANCIAL PRODUCTS TO ADDRESS THE CLIMATE CHALLENGES IN THE COUNTRY

NATIONAL CLIMATE FINANCE STRATEGY OF SRI LANKA

2025 - 2030

FINANCIAL PRODUCTS TO ADDRESS THE CLIMATE CHALLENGES IN THE COUNTRY

National Climate Finance Strategy of Sri Lanka (2025-2030)

First published: October 2025

Published by: Ministry of Finance, Planning and Economic Development

This initiative is implemented by UNDP's Climate Finance Network project, which is supported by the United Kingdom's Foreign, Commonwealth & Development Office under the CARA programme.

The National Climate Finance Strategy of Sri Lanka (2025 – 2030) was approved by the Cabinet of Ministers on 8 September 2025.

(Cabinet Memorandum No. 25/1633/804/196)

TABLE OF CONTENTS

TABLE OF FIGURES

ACRONYMS

AAIB	Agriculture and Agrarian Insurance Board
ADB	Asian Development Bank
AFOLU	Agriculture, Forestry, and Other Land Use
AHP	Analytical Hierarchy Process
AI	Artificial Intelligence
ASEAN	The Association of Southeast Asian Nations
BIOFIN	Biodiversity Finance
BOT	Build-Operate-Transfer
CBA	Cost-benefit Analysis
CBD	Convention on Biological Diversity
CBI	Climate Bonds Initiative
CBT	Community-Based Tourism
CFS	Climate Finance Strategy
COP	Conference of the Parties
CPI	Climate Policy Initiative
CSO	Civil Society Organisation
DAC	OECD's Development Assistance Committee
DENR	Department of Environment and Natural Resources
DLT	Distributed Ledger Technologies
ERD	Department of External Resources
ES Pool	Elementarschaden-Pool
ESG	Environmental, Social, and Governance
FCG	Sri Lanka's Fertilizer Cash Grant
FONDEN	Fideicomiso Fondo de Desastres Naturales
GAP	Good Agricultural Practices
GBP	Green Bond Principles

GCF	Green Climate Fund
GDP	Gross Domestic Product
GEF	Global Environmental Facility
GHG	Greenhouse Gas
GLP	Green Loan Principles
GPS	Global Positioning System
GRF	Green Revolving Fund
GSS+	Green, Blue or Sustainability
GSTC	Global Sustainable Tourism Council
HVAC	Heating, Ventilation, and Air Conditioning
IBRD	International Bank for Reconstruction and Development
ICMA	International Capital Market Association
IDA	International Development Association
IPP	Independent Power Producer
KPI	Key-Performance Indicator
L&D	Loss and Damage
LDC	Least Developed Country
LGU	Local Government Unit
LKR	Sri Lankan Rupee
LMA	Loan Market Association
M&E	Monitoring and Evaluation
MDB	Multilateral Development Bank
MNC	Multinational Corporation
MoF	Sri Lanka's Ministry of Finance, Planning and Economic Development

MRV	Monitoring, Reporting and Verification
NAPPP	National Agency for Public-Private Partnerships
NbS	Nature-based Solutions
NCA	Natural Capital Accounting
NDC	Nationally Determined Contributions
NDRI	Natural Disaster Risk Insurance
NGO	Non-governmental Organisation
NITF	National Insurance Trust Fund
NNDIP	National Natural Disaster Insurance Policy
NNDIS	National Natural Disaster Insurance Scheme
NSO	National Statistic Office
ODA	Official Development Assistance
USD	United States Dollar
OECD	Organisation for Economic Co-operation and Development
PA	Protected Area
PDNA	Post-Disaster Needs Assessment
PENCAS	Philippine Ecosystem and Natural Capital Accounting System
PPP	Public-Private Partnership
R-NSTC	Readiness for National Sustainable Tourism Certification
ROI	Return on Investment
SALT	Sloping Agricultural Land Technology
SEEA	System of Environmental Economic Accounting

SEEA EA	System of Environmental Economic Accounting Ecosystem Accounting
SLCCS	Sri Lanka Carbon Crediting Scheme
SLSEA	Sri Lanka Sustainable Energy Authority
SLTDA	Sri Lanka Tourism Development Authority
SME	Small Medium-sized Enterprises
SPO	Second Party Opinion
SPV	Special Purpose Vehicle
TNA	Training Needs Analysis
UNDP	United Nations Development Programme
UNFCCC	United Nations Framework Convention on Climate Change
UoP	Use of Proceeds

EXECUTIVE SUMMARY

The National Climate Finance Strategy by the Ministry of Finance, Planning and Economic Development (MoF) provides a framework aimed at facilitating the financing of sustainable development initiatives and building resilience to climate challenges in the country. In this regard the Strategy has addressed the country's limited access to international funding by establishing structured financing methods and key partnerships to achieve Sri Lanka's climate and economic goals. Balancing global climate finance standards with the specific needs of Sri Lanka, it offers a pathway to strengthen both climate action and economic resilience.

The Strategy adopts an organized approach based on international best practices, focusing on crucial areas like adaptation, mitigation, and managing climate-related losses. The central sectors for targeted initiatives include energy, water, and agriculture. This framework ensures that funding is used effectively and meets global standards. It outlines targeted financial tools and partnerships designed to link available resources directly to specific climate goals, creating a solid foundation for Sri Lanka's climate financing efforts. Given the current constraints placed on Sri Lanka's ability to access international capital markets, the identification of these financing instruments, the financing partners, and the linkages to the outputs will form the country's Climate Finance Strategy. In this context having followed the methodology described in Annexure 1, the following instruments were identified to form the core of Sri Lanka's National Climate Finance Strategy:

1. **Disaster risk insurance**
2. **Public–Private Partnerships for climate action**
3. **Subsidies for Good Agricultural Practices (GAP)**
4. **Green, Blue, or Sustainability/ Sustainability-Linked Bonds**
5. **Green loans**
6. **Increasing Official Development Assistance (ODA)**
7. **Natural capital accounting in national accounts**
8. **Promotion of sustainable tourism**
9. **Entrance fees**
10. **Green Revolving Fund (GRF)**
11. **Environmental, Social and Governance (ESG) swaps focused on nature, energy, water and agriculture**
12. **Development of a carbon market**

This approach enables the government to oversee project progress more closely, ensuring that climate funding delivers clear environmental improvements. Recognizing the cautious approach private investors often take with climate-related projects, the Strategy calls for support from development partners, including risk guarantees, to enhance cost-effectiveness.

Through these collaborative efforts, the Strategy aims to balance financial sustainability with effective climate action, drawing on both public-private partnerships (PPPs) and development support to drive meaningful progress.

This approach enables the government to oversee project progress more closely, ensuring that climate funding delivers clear environmental improvements. Recognizing the cautious approach private investors often take with climate-related projects, the Strategy calls for support from development partners, including risk guarantees, to enhance cost-effectiveness. Through these collaborative efforts, the Strategy aims to balance financial sustainability with effective climate action, drawing on both public-private partnerships (PPPs) and development support to drive meaningful progress.

With a focus on the period from 2025 to 2030, Sri Lanka's National Climate Finance Strategy marks a key step toward achieving climate resilience, sustainable growth, and a shift towards low-carbon development. The first review of this Strategy is scheduled for 2027.

By combining innovative financial solutions, building strong partnerships, and ensuring transparent use of funds, this Strategy sets the course for a more adaptive, resilient, and climate-conscious future for Sri Lanka, guiding to secure vital climate financing and support the nation's long-term sustainable development.

INTRODUCTION

The growing urgency to address climate change has placed significant emphasis on the role of finance in supporting global efforts to transition to a low-carbon, climate-resilient economy. Climate finance refers to local, national, or transnational financing - drawn from public, private, and alternative sources - seeking to support mitigation and adaptation actions that will address climate change.

This National Climate Finance Strategy (CFS) examines climate-related opportunities and best practices from a financial point of view, specific to Sri Lanka's context. The Strategy focuses on international best practices in relation to climate finance across three key thematic areas, namely, adaptation, mitigation and loss and damage (L&D). All three sectors require different approaches to financial product structuring and may need different enabling factors. The first chapter of the Strategy provides an overview of finance solutions to address the climate challenges of Sri Lanka followed by a deep dive into 12 financial solutions which were identified as optimal solutions to be implemented in Sri Lanka. The second chapter identifies and analyses de-risking mechanisms that could be used in the context of climate finance and how these could be applied in Sri Lanka. The third chapter provides recommendations of key enabling factors related to policies, regulations and infrastructure. It also outlines a Stakeholder Engagement Plan, indicating the respective roles in enabling and accelerating selected financial products. This is complemented with a thorough Capacity Building Strategy.

THE CASE FOR A NATIONAL CLIMATE FINANCE STRATEGY

Sri Lanka faces mounting climate risks that threaten economic stability, food security, and long-term development. In the face of the country's vulnerability to extreme weather, rising temperatures and coastal erosion, mitigation and adaptation efforts will be required. A National Climate Finance Strategy is an essential step towards mobilizing adequate funding for these climate actions. Climate change presents not only an environmental challenge but an economic and financial risk that, if left unaddressed, could severely hinder Sri Lanka's progress toward sustainable development.

Global mitigation finance needs to surpass 7.2 trillion annually by 2030. While declines in technology costs have prompted finance in clean energy technologies, investment has been much slower in other sectors such as AFOLU, industry, waste and wastewater.[1] For adaptation, developing countries need between USD 130 billion and USD 415 billion annually by 2030,[2] yet only 5% of global climate finance was allocated to adaptation between 2021 to 2022.[3]

1 CPI. (2024). Global Landscape of Climate Finance 2024: Insights for COP29. https://www.climatepolicyinitiative.org/wp-content/uploads/2024/10/Global-Landscape-of-Climate-Finance-2024.pdf
2 UNEP. (2023). Adaptation Gap Report 2023. https://www.unep.org/resources/adaptation-gap-report-2023
3 CPI. (2024). Tracking and Mobilizing Private Sector Climate Adaptation Finance. https://www.climatepolicyinitiative.org/publication/tracking-and-mobilizing-private-sector-climate-adaptation-finance/#:~:text=Adaptation%20finance%20tracked%20in%20the,annual%20average%20in%202019%2F20.

Another key development is the emergence of the Fund for Responding to L&D, it is expected to support countries respond to the adverse effects of climate change, including both economic and non-economic L&D.[4] Given Sri Lanka's vulnerability to climate change, a national strategy is critical to align investment flows with sectoral needs, ensuring funding for renewable energy, climate-resilient infrastructure, and nature-based solutions (NbS).

Unchecked climate change could slash global Gross Domestic Product (GDP) by 7.6% by 2070,[5] in Sri Lanka, it threatens agriculture, fisheries, and tourism, disrupting jobs and livelihoods. Without targeted financial planning, the country risks severe economic instability. A National Climate Finance Strategy helps to mobilize resources, integrate climate considerations into fiscal planning, and drive public and private investment toward resilience-building efforts.

Robust governance and institutional coordination are critical elements for Sri Lanka to effectively channel climate finance. A National Climate Finance Strategy can embed climate finance into fiscal planning, integrating it into national budgeting to ensure long-term sustainability while enhancing transparency and tracking through mechanisms with clear monitoring systems to improve efficiency and accountability.

CLIMATE CHANGE RELATED CHALLENGES AND OPPORTUNITIES

Sri Lanka faces significant challenges related to climate change, which adds another layer of complexity to its economic recovery efforts. Despite the country's historical focus on low-carbon development and its relatively low per capita energy intensity and emissions, Sri Lanka remains highly vulnerable to climate-induced extreme weather events, consistently ranking among the top ten countries on the Global Climate Risk Index from 2018 to 2020. In response to these risks, the government has implemented several policies and strategies, including the updated National Policy on Climate Change (2023), updated Nationally Determined Contributions (NDCs) (2021), NDC Implementation Plan (2021-2030), 2050 Carbon Net Zero Roadmap and Strategic Action Plan and the National Adaptation Plan (NAP) (2016 – 2025). The country is also presently in the process of enhancing and updating their NDCs and NAP.

However, the ongoing economic recovery and tight fiscal situation necessitate a more integrated approach. There is a strategic opportunity for Sri Lanka to align its climate resilience efforts with its broader development goals, ensuring that climate change adaptation and mitigation are central to both national and local planning.

4 UNFCCC Secretariat. (2024). Report of the Board of the Fund for responding to Loss and Damage. https://unfccc.int/documents/641397

5 Deloitte. (2022). Deloitte research reveals inaction on climate change could cost the world's economy US$178 trillion by 2070.https://www.deloitte.com/global/en/about/press-room/deloitte-research-reveals-inaction-on-climate-change-could-cost-the-world-economy-us-dollar-178-trillion-by-2070.html

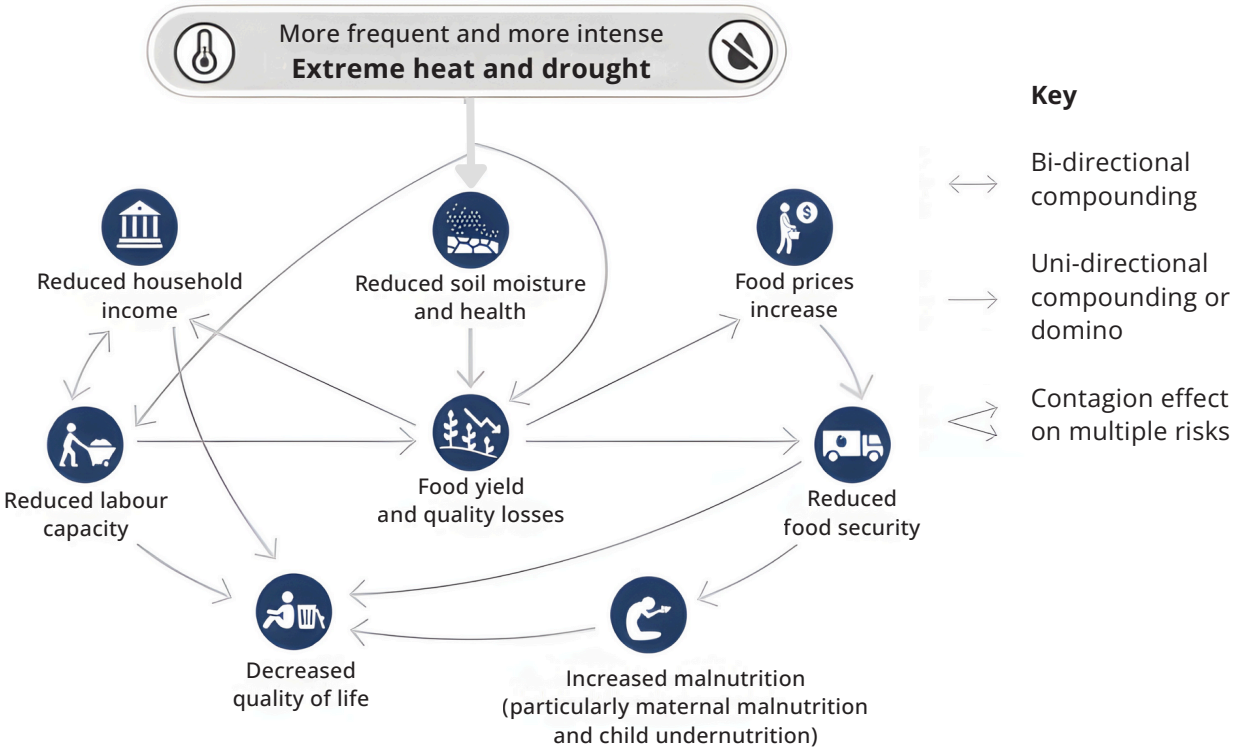
To support these efforts, financial products play a crucial role. These products include a range of instruments designed to mobilize and allocate financial resources effectively to reduce climate risks and enhance resilience through adaptation, mitigation, and managing L&D. Climate adaptation solutions are (financial) products and services which support businesses and projects enabling systems to function and flourish in the face of shocks and stresses, limiting damage from disturbances and recovery from shocks while managing change including transformative shifts.[6] In contrast climate mitigation solutions are (financial) products or services through which avoiding or reducing greenhouse gas (GHG) emissions or increasing GHG sequestration, contribute to the stabilization of GHG concentration in the atmosphere; in turn aiming to slow down global warming and climate related physical effects.[7] Effective adaptation and mitigation finance is crucial to transition to low-carbon economies and achieve the targets set by international agreements including the Paris Agreement.[8] Despite efforts in adaptation and mitigation, some climate impacts are unavoidable, leading to L&D. L&D refers to the residual impacts from climate induced events which occur despite mitigation and adaptation efforts.[9]

The Paris Agreement is built around three main pillars: mitigation, adaptation, and L&D. Mitigation focuses on reducing GHG emissions to limit global warming, while adaptation involves adjusting policies and practices to reduce climate change impact.

The L&D pillar was formally established as the third pillar during COP 21 in 2015 to address the residual impacts that are beyond the scope of mitigation and adaptation, such as extreme weather and slow onset events caused by climate change. Although Article 8 of the Paris Agreement acknowledges L&D, it does not create a basis for liability or compensation. This recognition of L&D highlighted the need for dedicated strategies and resources to manage the unavoidable harm caused by climate change.[10]

Despite the classification of climate related activities and segregation into various categories, climate risks, effects and opportunities should not be viewed in isolation since their causes and effects are complex and intercorrelated. For instance, Figure 1[12] demonstrates how a combination of heat waves and drought initiates a cascade of negative effects for multiple interrelated sectors across different regions.[13]

6 IDFC. (2023). Common Principles for Climate Change Adaptation Finance Tracking. https://www.idfc.org/wp-content/uploads/2023/11/idfc-2023-common-principles-adaptation.pdf
7 ADB. (2023). Common Principles for Climate Mitigation Finance Tracking. https://www.eib.org/attachments/documents/mdb_idfc_mitigation_common_principles_en.pdf
8 IPCC, Sixth Assessment Report: Working Group III: Mitigation of Climate Change - https://www.ipcc.ch/report/ar6/wg3/chapter/chapter-15/
9 UNEP, (2023), About Loss and damage - https://www.unep.org/topics/climate-action/loss-and-damage/about-loss-and-damage
10 Morten Broberg, (2020), State of Climate Law: The Third Pillar of International Climate Change Law: Explaining 'Loss and Damage' after the Paris Agreement - https://brill.com/downloadpdf/view/journals/clla/10/2/article-p211_211.pdf
11 IPCC, (2023), Climate Change 2023 Synthesis Report - https://www.ipcc.ch/report/ar6/syr/downloads/report/IPCC_AR6_SYR_LongerReport.pdf
12 IPCC, (2023), Climate Change 2023 Synthesis Report - https://www.ipcc.ch/report/ar6/syr/downloads/report/IPCC_AR6_SYR_LongerReport.pdf



Multiple climate change risks will increasingly compound and cascade in the near term

Figure 1 *Example of impact from climate extreme events have cascading effects*

GOVERNMENT COMMITMENT TO PUBLIC FINANCE FOR CLIMATE ACTION

The National Budget Department of the Ministry of Finance is presently conducting a Climate Public Expenditure and Institutional Review (CPEIR) in collaboration with UNDP to assess how public resources are being used to address climate change. It will track Climate-Related Spending, Improve Budget Transparency; Strengthen Institutional Frameworks; Support Policy Integration; Inform Decision-Making; and Enhance Accountability. The ongoing CPEIR captures the status of climate-related expenditure, especially the magnitude and trend of climate change expenditure, over the period from 2016 to 2023 prioritizing the 15 NDC sector related government agencies.Further, the assignment will explore the extent to which climate budgeting aligns with the Government's climate change priorities and shall provide recommendations for improving the effectiveness of planning, budgeting, utilizing and mobilizing resources for climate change actions in future socio-economic development strategies and action plans for the period 2023 – 2030. Further, the NBD is in the process of scoping the possibility of introducing Climate Budget Tagging (CBT) as a tool to identify, track, and monitor climate-related expenditures within the government's budgeting system. CBT is a foundational tool for climate-informed public financial management (PFM). Public finance is not just about how much money is spent; it is about how it is used to unlock bigger flows of capital. While the quantities are yet to be analyzed, public finance will act as a lever, signal, and risk buffer to enable large-scale, sustained, and innovative financing for climate action, which will be discussed across the following 12 instruments.

OVERVIEW OF CLIMATE-RELATED FINANCIAL SOLUTIONS AND OPPORTUNITIES

Financial Solutions and Opportunities	Description
Disaster Risk Insurance	Provides financial protection for individuals, businesses, and government assets against natural and climate-induced disasters. Includes index-based and macro-level schemes to cover floods, droughts, and other hazards.
Public–Private Partnerships (PPP) for Climate Action	Leverages private sector investment for climate-focused infrastructure like renewable energy and water management, supported by government incentives and international finance.
Subsidies for Good Agricultural Practices (GAP)	Redirects government subsidies to support sustainable agriculture, such as organic farming and climate-smart techniques. Includes financial incentives, technical assistance, and materials to promote GAP adoption.
Green, Blue, Sustainable or Sustainability-Linked Bonds	Sovereign bonds fund projects with environmental and social benefits, such as renewable energy, waste management, and biodiversity conservation. Aligns with global Green Bond Principles (GBP).
Green Loans	Financial tools supporting environmentally sustainable projects, including renewable energy and pollution prevention. Governed by the Green Loan Principles for transparency and measurable benefits.
Official Development Assistance (ODA)	Enhances the management and allocation of international development aid for infrastructure, climate resilience, and sustainable growth through improved governance and strategic frameworks.
Natural Capital Accounting (NCA)	Integrates environmental assets, such as ecosystems and their services, into national accounting to inform policy and investment decisions. Adopts frameworks like SEEA Ecosystem Accounting.
Promotion of Sustainable Tourism	Focuses on eco-friendly practices, community-based tourism, and certifications to minimize environmental impact while supporting local economies and preserving cultural heritage.
Carbon Markets	Develops a framework for trading carbon credits generated from emissions reductions and NbS. Supports projects like renewable energy and afforestation, with integration into international markets.
Entrance Fees	Implement fee schemes at protected areas (PAs) to generate sustainable revenue for conservation and climate resilience projects. Funds are to be reinvested in biodiversity protection and eco-tourism infrastructure.
Green Revolving Fund (GRF)	A self-sustaining fund that finances energy efficiency and sustainability projects. Savings from completed initiatives are reinvested into the fund for future projects.
Environmental, Social and Governance (ESG) Swaps (Nature, Energy, Water, and Agriculture)	Debt-for-environment agreements where debt is forgiven in exchange for investments in sustainability initiatives like biodiversity conservation, renewable energy, and water management.
Carbon Markets	Develops a framework for trading carbon credits generated from emissions reductions and NbS. Supports projects like renewable energy and afforestation, with integration into international markets.

Table 1 *Financial Solutions Summary List*

DEEP DIVE FINANCIAL SOLUTIONS

DISASTER RISK INSURANCE

OVERVIEW

Objective	Provide financial protection through disaster risk insurance to mitigate the economic impact of natural and climate-induced disasters, ensuring quicker recovery and reducing the financial burden on the government and vulnerable communities.
Product Description	Disaster risk insurance typically provides financial protection against the economic losses caused by hazards such as floods, earthquakes, and storms. The core idea is to transfer the financial risk of these events from individuals or governments to insurance companies. In exchange for a premium, insurers agree to compensate for damages based on pre-defined conditions. This allows governments, businesses, and households to recover more quickly after a disaster, reducing the financial strain and uncertainty. Climate-induced disasters, particularly extreme weather events such as heatwaves, cold spells, and erratic rainfall patterns, are increasingly becoming significant contributors to economic losses. Including these in the insurance coverage ensures a more comprehensive risk management framework, aligned with climate resilience objectives. Disaster risk insurance is a proactive approach to managing financial risks associated with disasters, helping improve resilience and recovery capacity.[13]
Expected size and Targeted segment	Nationwide, focusing on smallholder farmers, small to medium-sized enterprises (SMEs), and vulnerable communities in high-risk areas. Could cover tens of thousands of households and businesses affected by disasters each year.
Product proposal	Disaster risk insurance covering a range of hazards (floods, droughts, landslides, et cetera) for individuals, businesses, and government assets. Coverage will be linked to climate conditions and could include index-based and macro-level schemes.
Timeframe for development	Short to medium-term: 1–2 years to design the insurance products, build partnerships with private insurers, and secure international climate finance; 2–4 years for widespread adoption and implementation.
Maturity of product	Early stage: disaster risk insurance exists in Sri Lanka but needs reform and expansion to cover a broader range of risks, particularly for agriculture and low-income households.
Potential partners	Multilateral official development partners, multilateral financial organizations, private insurance companies, agricultural cooperatives, and local community organizations.

13 The World Bank, Disaster Risk Financing and Insurance (DRFI) Program - https://www.worldbank.org/en/programs/disaster-risk-financing-and-insurance-program

Over the past 30 years, losses from natural disasters have risen significantly, driven by factors such as population growth, urbanization, and the increasing accumulation of assets vulnerable to destruction by natural events. Climate change has also contributed to the growing frequency and intensity of these hazards, with predictions of further escalation. Despite these risks, there remains a significant gap in insurance coverage for natural catastrophes. In 2024, globally the difference between insured and uninsured losses across life, health, natural catastrophe, and crop insurance, was estimated to be about USD 1.8 trillion.[14] Natural disasters such as wildfires, floods, storms, and earthquakes caused about USD 371 billion in global economic losses, with 60% of those losses being uninsured. While industrialized countries face larger absolute losses due to the value of their assets, developing countries experience higher relative losses as a percentage of their GDP and also bear greater human losses. For instance, Least Developed Countries (LDCs) have experienced nearly 70% of deaths attributed to climate-related disasters over the last 50 years owing to the five-fold increase in climate-related hazards in these countries since the 1970s despite contributing to only 1% of global emissions.[15] The absence of adequate financial protection in such situations leads to slower recovery, higher costs for relief and reconstruction, and the potential for political interference in distributing post-disaster aid.[16]

RELEVANT CASE STUDIES

In Switzerland, the Elementarschaden-Pool (ES Pool) is a prime example of an insurance company that covers L&D from natural hazards. Established in 1936, this pool is a voluntary association of private insurers that covers over 90% of the natural perils market in Switzerland. The ES Pool ensures that natural perils insurance remains affordable and accessible, even in high-risk areas. It includes coverage for damages caused by events such as high water, floods, storms, hailstorms, avalanches, snow pressure, rockfall, rockslides, and landslides. The premiums are uniform and based on the insured property's value, spreading risks among all the pool members, thus maintaining financial sustainability and coverage affordability for policyholders across Switzerland.[17]

In Mexico, the Natural Disaster Fund (FONDEN) was established in 1996 to address delays in securing financing for emergency response and recovery efforts following natural disasters. FONDEN served as a financial mechanism that provides post-disaster resources to federal agencies and Mexican states. Its primary mandate was twofold: first, to finance immediate emergency assistance through a revolving fund, and second, to allocate financial resources to Mexico's 32 states and relevant ministries such as the Ministries of Infrastructure, Health, Education, and Human Development, when the cost of disaster-related losses surpasses their budgetary capacity.

14 InsuranceBusiness (2025). Global insurance protection gap reaches estimated £1.4 trillion. https://www.insurancebusinessmag.com/asia/news/breaking-news/global-insurance-protection-gap-reaches-estimated-1-4-trillion-527717.aspx

15 UNDRR (2025). Disaster Risk Reduction in Least Developed Countries. https://www.undrr.org/implementing-sendai-framework/sendai-framework-action/disaster-risk-reduction-least-developed-countries#:~:text=LDCs%20have%20experienced%20nearly%2070,(UNDRR%20GAR%2C%202022).

16 FERDI & The World Bank & GFDRR & UKaid, (2015), Disaster Risk Financing and Insurance: Issues and results - https://ferdi.fr/dl/df-TYja9cVmPHPN9fs6q1zkbgwu/book-disaster-risk-financing-and-insurance-issues-and-results.pdf

17 SVV (2024), Affordable natural perils insurance thanks to the ES pool - https://www.svv.ch/en/insurance/property-and-casualty-insurance/natural-perils-insurance/affordable-natural-perils

SRI LANKA CONTEXT

Sri Lanka's exposure to frequent natural and climate-induced disasters, including floods, landslides, storms, and droughts, underscores the importance of having robust insurance mechanisms in place to support recovery efforts and protect vulnerable communities.[18,19,20]

In Sri Lanka, DesInventar[21] is primarily used to understand the impact of historical disasters, documenting events such as floods, droughts, and landslides. It provides granular data in regard to deaths, houses destroyed/damaged and those directly/indirectly affected and assists in identifying high risk-areas and recurring patterns, supporting risk assessments for disaster insurance schemes. Whilst it cannot be used to calculate premiums, DesInventar data and risk information can be applied to help identify high risk regions and vulnerable sectors for the purpose of tailored insurance products, such as flood insurance or parametric schemes.

The 2016 and 2017 Post-Disaster Needs Assessment (PDNA) for floods and landslides in Sri Lanka provide additional insights into the socio-economic impact, sectoral vulnerabilities, and recovery needs of the country. 2016 saw floods severely impact agricultural productivity, signalling a requirement for products such as index-based crop insurance that is triggered based on rainfall metrics or flood intensity. Landslide prone areas in the Southern and Central Provinces experienced high displacement and damage, indicating a need for insurance products to be tailored to include landslide triggers and incorporate relocation/rebuilding costs.[22] 85% of the 58,925 affected houses were in the Colombo and Gampaha districts, highlighting the need for affordable housing insurance in these regions. 2017 saw the disaster impacting fewer areas (from 24 to 15 districts out of the 25 total) but there was an overall increase in landslides and deaths, increasing to 219 lives lost from 93.[23] Sabaragamuwa, Southern and Western Districts faced the highest impacts, approximately 230,000 families were affected. This provides an opportunity to tailor multi-hazard insurance schemes that combine flood and landslide coverage to aid people in high-risk areas.

18 H. A. C. D. Senavirathna, (2020), Existing Natural Disaster Risk Insurances In Sri Lanka - https://www.irjmets.com/uploadedfiles/paper/volume2/issue_8_august_2020/2907/1628083110.pdf

19 CEF (2023), Macro-level insurance for financing post-disaster recovery: The case of National Disaster Insurance Policy in Sri Lanka - https://www.anserpress.org/journal/cef/1/1/2

20 Adding to this landscape are initiatives such as IFC's weather index and the UNDP's Insurance Risk Financing Facility (IRFF). IRFF is supporting farmers with crop insurance based on adherence of agromet advisories for cultivation planning, not only mitigating the financial impact of crop losses but also incentivizing climate-smart agricultural practices. This emphasizes that disaster risk insurance is more than just a tool for compensation—it is a cornerstone of financial resilience, helping vulnerable communities and countries recover without compromising their development goals.

21 DesInventar is a disaster information management system developed by UNDRR.[1] It provides critical disaster-related data that includes historical losses, affected populations, and hazard-specific vulnerabilities.

22 Ministry of National Policies and Economic Affairs, Ministry of Disaster Management (2016). Sri Lanka Post-Disaster Needs Assessment: Floods and Landslides-May 2016.

23 Ministry of National Policies and Economic Affairs, Ministry of Disaster Management (2017). Sri Lanka Post-Disaster Needs Assessment: Floods and Landslides-May 2017.

SAFEGUARDING CRITICAL SECTORS

The following sectors are highly suitable for disaster risk insurance in Sri Lanka, considering their vulnerability to disasters and the capacity of insurance to provide protection.

Agriculture

Sri Lanka's agriculture sector employs a quarter of the working population[24] and is highly vulnerable to risks such as droughts, floods, and pest outbreaks. Disaster risk insurance tailored to farmers can safeguard against crop losses, ensuring income stability and enabling quicker recovery. Index-based insurance products linked to rainfall or temperature thresholds could offer affordable and effective coverage.

Fisheries

Coastal communities dependent on fishing face significant impacts due to cyclones, tsunamis, and coastal erosion risks. Insurance schemes designed for fishing vessels and equipment can mitigate potential economic losses while promoting sustainable practices in this climate-sensitive sector.

Tourism

Sri Lanka's tourism sector has seen a strong recovery in 2024 after a significant downturn over recent years, earning USD 3.16 billion in 2024, the sector reached the highest annual total since 2019. Considering the importance of the sector as per the country's Strategic Plan for Tourism, protecting critical assets from disasters is imperative. Insurance can support recovery efforts and build investor confidence by covering hotels or other tourist facilities, shortening the timeframe of impact caused by disruptions.

Small and Medium Enterprises

SMEs are often underinsured, and many are located in high-risk zones. Comprehensive disaster risk insurance policies can bolster financial resilience by covering property damage and business interruptions.

Public Infrastructure

Critical infrastructure including roads, bridges, and schools are essential for post-disaster recovery. Macro-level disaster risk insurance schemes covering public assets can quicken the resumption of services after a disaster, reducing long-term socioeconomic impacts.

Water Resources and Irrigation

With increasing water scarcity and erratic rainfall patterns,[25] disaster risk insurance can protect investments in irrigation systems, water conservation projects, and community water supplies, supporting climate adaptation efforts in rural areas.

EXISTING NATURAL DISASTER RISK INSURANCE COVERAGE

Sri Lanka's current insurance offerings for natural disasters remain limited. Of the 14 general insurance companies in Sri Lanka, only 9 provide some form of disaster risk coverage, often as an additional premium rather than a core feature. This results in low uptake, particularly among low-income households and smallholder farmers, who are most vulnerable to disasters.

---

24 Department of Census and Statistics (2022). Sri Lanka Labour Force Statistics: Quarterly Bulletin, First Quarter 2022. http://www.statistics.gov.lk/Resource/en/LabourForce/Bulletins/LFS_Q1_Bulletin_2022.pdf

25 Sri Lanka Water Board (2024). Assessment of water sources and impact of climate change in Sri Lanka. https://knowledge.unicef.org/resource/assessment-water-sources-and-impact-climate-change-sri-lanka-2

Furthermore, many policies exclude critical risks such as drought, which poses a significant threat to the agricultural sector. Overall participation in natural disaster risk insurance (NDRI) remains low, leaving much of the population underinsured.

The National Natural Disaster Insurance Policy (NNDIP) is an example of a macro-level insurance scheme which was introduced in 2016, it was discontinued in 2020 and replaced with direct compensation mechanisms via the Treasury. This policy offered blanket coverage for all residential properties and SMEs against damage from natural hazards. Each property was insured annually up to LKR 2.5 million (~USD 8,438),[26] covering emergency relief and property damage. In its first two years, the policy paid out LKR 7.12 billion (~USD 240 million) in claims, providing financial relief following the floods and landslides of 2016 and 2017. The discontinuation of this policy came on the back of political challenges, with limited evidence of a robust cost-benefit-analysis (CBA) to defend its continuation. Future schemes need to focus on financial sustainability, potentially integrating private sector participation or risk-sharing mechanisms.[27]

CHALLENGES IN IMPLEMENTATION

Challenges in implementation include issues such as the high cost of premiums, which are prohibitive for many small businesses and farmers. Additionally, there is a lack of awareness about the scope of coverage, leading to confusion and frustration when claims are made. 98% of insurance policies require an additional premium for natural disaster coverage, making insurance less accessible to those who need it the most, particularly in high-risk areas. There is a strong need to further investigate and develop the depth of the insurance market through dedicated data collection and collaboration with international insurance and re-insurance companies. One successful example of the development of a similar solution, is the index-based livestock insurance scheme in Mongolia. Developed with the support of the World Bank, this insurance scheme covers losses from climate related disasters to smallholder farmers and their livestock.[28]

Administrative inefficiencies within the NNDIP included delays in damage assessments and payouts which hindered its effectiveness, especially for SMEs. While the policy's financial structure was designed to be sustainable, with premiums increasing from LKR 300 million (~USD 1.013 million) in 2016 to LKR 1.5 billion (~USD 5.063 million) by 2019, a lack of a comprehensive CBA before implementation raised concerns about the policy's long-term viability. A more detailed Analytical Hierarchy Process (AHP)-based CBA could provide better insights into the policy's direct and indirect benefits, ensuring its financial sustainability in the face of growing climate-related risks.

A lack of granular hazard data and the insufficient integration of risk assessments into policy frameworks present immediate gaps which need to be addressed. Technical assistance should focus on building data repositories, training local experts in hazard analysis, and integrating insights into insurance design. These measures will create a stronger foundation for launching impactful disaster risk insurance schemes in Sri Lanka.

26 The exchange rate for USD/LKR used throughout the document is 296.2915 as published by Central Bank of Sri Lanka on August 18th, 2025

27 Wedawatta, G., Wanigarathna, N., Vijekumara, A. (2023). Macro-level insurance for financing post-disaster recovery: The case of National Disaster Insurance Policy in Sri Lanka. DOI:10.58567/cef01010002

28 CDKN (2013). Index-based livestock insurance: The case of Mongolia. https://cdkn.org/sites/default/files/files/Mongolia_InsideStory_Pr4Final_WEB.pdf

GOVERNMENT AND PRIVATE SECTOR INITIATIVES

Efforts by the Sri Lankan government to address these gaps include the introduction of the NNDIS, which aims to provide coverage for uninsured properties and lives affected by natural disasters. However, this scheme still faces limitations, particularly in the agricultural sector. For example, the Agriculture and Agrarian Insurance Board's (AAIB) crop insurance scheme, designed to protect farmers from droughts, floods, and pest attacks, covers only 4.23% of the total cultivated area, leaving the vast majority of farmers uninsured. Better collaboration between the government and private insurance companies to enhance reinsurance capabilities would reduce the financial burden on the National Insurance Trust Fund (NITF). To ensure the policy's long-term success it is recommended to expand the scope of the NNDIP to cover a wider range of disaster-related expenses and to improve communication between the government and affected communities.

Data also needs to be reliable and comparable for para-metric insurance. Data gaps and enhancing overall research capabilities are critical components in improving disaster risk insurance in Sri Lanka. Comprehensive and validated datasets are essential to accurately assess risk exposure, set premiums and design effective products. To achieve this, investments in information management systems such as DesInventar,[29] and advanced hazard mapping technologies should be prioritized. These tools will support the precise identification of high-risk zones and help customize insurance products to local needs.

Collaborating with academic institutions and private sector partners could play a significant role in managing these information systems. Universities or similar entities could be tasked with collecting, maintaining, and analysing hazard and risk data to ensure that it remains up-to-date and scientifically robust. The insurance industry could co-finance this initiative, creating a sustainable model for long-term data generation. This approach works to both enhance product development and to build the required technical capacity to support disaster risk insurance as a key element of national resilience strategies.

RECOMMENDATIONS FOR IMPROVEMENT

Updating Sri Lanka's hazard profile is a key first step in ensuring that policies and products reflect the current risk environment. There is also a need to increase public awareness of disaster insurance, make premiums more affordable, and develop targeted products that specifically address natural disaster risks. It is suggested to automatically include disaster coverage in general insurance policies, rather than offering it as an extra option to increase participation and ensure broader protection. Improvements in administrative efficiency are necessary to reduce delays in claims processing and to conduct more rigorous financial analyses to ensure the long-term sustainability of insurance schemes like the NNDIS. Notably, it is important to integrate CBA techniques to better understand the financial and social benefits of such policies.

In summary, there is a critical need for a more comprehensive and accessible disaster risk insurance system in Sri Lanka. While progress has been made through national initiatives like the NNDIP and NNDIS, significant gaps remain in coverage, particularly for vulnerable groups such as smallholder farmers and low-income households. Addressing these challenges will require stronger collaboration between the government and private insurers, greater public outreach, and more affordable, targeted insurance products. By doing so, Sri Lanka can build a more resilient and financially secure system for managing the growing threat of disasters.

29 UNDRR (n.d.) DesInventar. https://www.desinventar.net/

STEPS FOR IMPLEMENTATION

Strategic Direction	Description
1. Pilot Innovative Models	Launch pilot programmes focusing on weather-indexed insurance for key crops such as rice, and fishing assets in coastal regions which are vulnerable to climate-related disasters. Incorporate local community inputs to ensure alignment with contextual needs.
2. Data Collection	Establish and maintain a centralised data collection database at the government level to collect disaster related information including pertaining to climate induced events.
3. Public-Private Partnerships	Forge partnerships between private insurers and government bodies like the NITF to co-develop and share risk for disaster insurance products.
4. Community Awareness Campaigns	Organize targeted awareness programmes in high-risk zones to educate communities about the benefits of disaster insurance and provide training on how to effectively access and use insurance schemes.
5. Subsidized Premiums for Vulnerable Groups	Use international climate finance (e.g. GCF) to subsidize insurance premiums for low-income households and farmers, ensuring affordability.
6. Real-Time Claims Processing System Centers	Develop a digital platform to simplify claims filing and accelerate payouts for insured individuals, integrating GPS-based assessments and satellite imagery for validation.
7. Integration into National Planning	Embed disaster risk insurance into broader disaster management strategies and L&D framework, ensuring alignment with early warning systems and resilience-building initiatives.

ANTICIPATED RESULTS

- **Expanded Insurance Coverage:** More farmers, small businesses, and vulnerable communities will gain access to disaster risk insurance, providing them with better financial protection against natural and climate-induced hazards.

- **Quicker Recovery After Disasters:** With streamlined, automatic payouts through climate-based insurance, communities will receive financial help faster, speeding up recovery efforts.

- **Less Financial Pressure on the Government:** By strengthening reinsurance partnerships with the private sector, the financial burden on the NITF and government will reduce.

- **More Affordable Insurance Options:** International climate funding will help subsidize premiums, making disaster insurance more accessible for low-income households in high-risk areas.

- **Greater Public Awareness:** National campaigns will increase understanding of disaster risk insurance, encouraging more people to prepare financially for natural disasters.

- **Improved National Resilience:** By incorporating disaster insurance into broader disaster preparedness plans, Sri Lanka will boost its ability to manage the financial impact of future climate events.

PUBLIC–PRIVATE PARTNERSHIPS FOR CLIMATE ACTION

OVERVIEW

Objective	Leverage PPPs to drive investments in climate action, focusing on renewable energy, water management, sustainable urban infrastructure, and climate resilience projects in Sri Lanka.
Product Description	A PPP is defined as a long-term agreement between a private company and a government entity to provide a public asset or service.[30] In this arrangement, the private party also takes on risk and management responsibilities, and their compensation is tied to how well they perform.[31] PPPs are built on the idea that they can deliver public services or infrastructure more cost-effectively and efficiently than projects which are solely managed by the public sector. The goal is to distribute risks between the public and private partners in the most effective way. In simple terms, the public sector takes on the risks it can manage best, while the private sector handles those it is better equipped to manage. There is no one-size-fits-all approach to risk allocation. Distribution of risks depends on factors like the specific characteristics of the project, expected revenues, the private partner's expertise, and the capabilities of the public sector.
Expected size	Depending on the project scale, PPP investments can range from USD 100 million to USD 1 billion over the course of several projects in sectors such as renewable energy, water management, and sustainable urban development.
Product proposal	Establish PPP frameworks to encourage private sector investment in large-scale climate-related infrastructure; de-risked by government incentives, international climate finance, and regulatory support.
Timeframe for development	Medium-term: 3–5 years for project preparation, securing private investment, and scaling up successful PPP models across sectors such as renewable energy and urban infrastructure.
Maturity of product	Developing stage; Sri Lanka has some experience with PPPs but requires further institutional and regulatory strengthening, as well as capacity-building initiatives to fully integrate climate-focused PPPs into national strategies.
Potential partners	Multilateral official development partners, multilateral financial organizations, domestic development partners, National Agency for Public-Private Partnerships (NAPPP), private sector companies and international investors in renewable energy and water management.

30, 31 Public-Private Partnership Resource Center (PPPRC), PPP Knowledge Lab - https://ppp.worldbank.org/public-private-partnership/ppp-knowledge-lab

SRI LANKA CONTEXT

PPPs offer Sri Lanka[32] a vital pathway to achieve its climate goals while managing financial limitations. With increasing demand for large-scale infrastructure, especially in sectors like renewable energy, water management, and urban development, PPPs can attract private capital, technical expertise, and innovation. By involving the private sector, Sri Lanka can accelerate its transition to a low-carbon economy and enhance its resilience to climate impact.

PPPs are essential for driving climate-related infrastructure projects. The private sector involvement helps fund critical projects like renewable energy installations, energy-efficient buildings, climate-resilient infrastructure, reducing GHG emissions and strengthening resilience in areas like agriculture, water management, and coastal protection. For example, Sri Lanka can adopt a BOT model for climate-related projects such as renewable energy plants, water management infrastructure, and sustainable urban developments to help mitigate upfront public sector costs, while leveraging efficiency and innovation from the private sector. Therefore, PPP structures ensure that critical climate infrastructure is developed as the government's capacity to manage these assets builds over time. Sectors where PPPs can be pursued for climate action include:

Focus on Renewable Energy and Efficiency: Renewable energy is a key area where PPPs can make a substantial impact. Sri Lanka's abundant resources in solar, wind, and hydropower offer significant potential for reducing reliance on fossil fuels and cutting carbon emissions. By attracting private investment through PPPs, Sri Lanka can scale up renewable energy projects such as wind farms and battery energy storage systems, with the government providing land and regulatory support while private companies manage construction, operation, and financing.

Water Management and Climate Resilience: Sri Lanka is highly vulnerable to water scarcity and flooding, making water management a critical area for PPP involvement. By partnering with private firms, government can develop water conservation systems, improve irrigation infrastructure, and build wastewater treatment facilities. These projects help ensure efficient water management, particularly in areas prone to drought or flooding, while innovative solutions like smart water systems reduce leakage and improve distribution.

Sustainable Urban Development: As urban areas grow, PPPs play a crucial role in developing climate-resilient infrastructure that meets increasing demand. This includes energy-efficient, green buildings, modern public transport systems (like electric buses), and sustainable waste management. Private sector investment in these areas can lower emissions while ensuring that cities grow in a sustainable, climate-friendly way.

Securing finance for green infrastructure through PPPs is both a challenge and an opportunity. By tapping into international funding sources like the GCF or multilateral development partners, Sri Lanka can attract concessional loans, grants, or guarantees to de-risk private investments. This bridges the gap between the high upfront costs of climate projects and their long-term benefits.

32 MF, Government of Sri Lanka, (2018), Framework Development And Infrastructure Financing To Support Public Private Partnerships - https://documents1.worldbank.org/curated/en/972591525333833635/pdf/SFG4315-EA-REVISED-PUBLIC-disclosed-7-24-18.pdf?_gl=1*pvtqw0*_gcl_au*NDAyODg5MTgxLjE3MjI0MzM0Mzc.

A strong regulatory and institutional framework is also crucial for the success of PPPs in Sri Lanka. In addition, environmental and social safeguards are key to the success of climate action-related PPPs. Projects such as renewable energy installations and large-scale infrastructure developments must adhere to both national and international environmental standards to mitigate potential risks. Proper safeguards ensure that these projects protect biodiversity, preserve ecosystems, and promote social inclusion by contributing to climate mitigation.

While PPPs offer many opportunities, challenges remain including difficulties in structuring complex agreements, limited institutional capacity, and securing significant upfront investment. However, with strong policy support, capacity-building initiatives, and access to international climate finance, Sri Lanka can scale up PPP projects to meet its climate action goals. Continuous engagement with private sector stakeholders and the development of clear project pipelines are critical to ensure PPP projects align with the country's long-term development and climate action strategies.

HOW PPP ARRANGEMENTS BECOME PRODUCTS

PPP arrangements evolve into structured financial products through project design, financial structuring, risk mitigation, and investment mobilization efforts. There are several steps involved in transforming a PPP concept into an investable product, in ensuring that the project is attractive to private investors while maintaining alignment with climate action objectives.

The initial step is project identification and structuring, where the government and relevant stakeholders define the climate-related infrastructure needs, whether they are renewable energy projects, water management systems, urban resilience programmes or other projects. This will include conducting feasibility studies, market assessments, and regulatory analyses to ensure projects have strong financial, environmental, and social returns.
Following this, financial structuring and risk allocation will transform the PPP arrangement into a bankable product. Governments and development partners play a critical role in de-risking projects by offering credit enhancements, guarantees, and concessional financing. Blended finance mechanisms, such as grants and concessional loans from institutions like the GCF or MDBs, help lower the cost of capital for private investors.

Securing private capital through investment vehicles is a crucial component of transforming PPPs into products. Governments and financial institutions can establish green bond frameworks, infrastructure investment funds, or project-specific special purpose vehicles (SPVs) to attract institutional investors, commercial banks, and impact investors. These financial structures bundle PPP projects into investable products with defined risk-return profiles, making them more attractive to a broader range of investors.

Once the project is implemented, scalability and replication ensure that PPP models are able to become long-term investment products. Pilot projects provide a proof-of-concept, demonstrating financial viability and impact. Lessons learned from initial projects inform policy adjustments, capacity building efforts, and improved risk-sharing models, allowing for a standardized approach to PPP financing across multiple climate-related sectors.

STEPS FOR IMPLEMENTATION

Strategic Direction	Description
1. Develop a National PPP Framework for Climate Action	Create a comprehensive framework that defines the structure, objectives, and risk-sharing mechanisms for climate action-related PPPs. Prioritize sectors such as renewable energy, water management, and sustainable urban infrastructure.
2. Identify and Prioritize High-Impact Projects	Develop a pipeline of climate-resilient infrastructure projects with strong environmental, economic, and social returns. Focus on areas like solar, wind, battery energy storage systems, water conservation systems, and climate-resilient housing.
3. Incorporate Risk Mitigation Strategies	Implement guarantees, insurance mechanisms, and blended finance models to de-risk investments for private sector partners. Use international funding sources, such as the GCF, to underwrite initial risks.
4. Engage Stakeholders in Early Development	Include private sector actors, local communities, and multilateral organizations in the project design phase to ensure alignment with market needs, community priorities, and funding requirements.
5. Promote Capacity Building and Knowledge Sharing	Train government officials and private sector participants in structuring and managing climate action-related PPPs. Share best practices of successful PPP models from other countries.
6. Establish Incentives for Private Sector Participation	Offer fiscal incentives appropriately to encourage private investment in sustainable projects.
7. Monitor and Evaluate Outcomes	Create robust systems to monitor the environmental, social, and financial outcomes of PPP projects. Use this data to adjust policies, improve project designs, and enhance investor confidence.
8. Facilitate International Partnerships and Funding	Collaborate with development banks, international donors, and global climate funds to co-finance and provide technical assistance for climate action-related PPP projects.

ANTICIPATED RESULTS

- **Increased Investment in Renewable Energy:** PPPs will drive large-scale investments in renewable energy projects such as solar and wind farms. This helps Sri Lanka to reduce its reliance on fossil fuels and cut carbon emissions.

- **Improved Water Management Systems:** With PPPs, Sri Lanka can develop advanced water management systems, including conservation efforts, wastewater treatment, and irrigation improvements. These projects enhance resilience to water scarcity and flooding, both of which are worsening due to climate change.

- **Sustainable Urban Infrastructure Development:** PPPs help to modernize urban infrastructure, including energy-efficient buildings, electric public transport, and sustainable waste management. This ensures cities grow in a climate-friendly way, lowering emissions and boosting resilience to climate impacts.

- **Enhanced Climate Resilience for Vulnerable Sectors:** By targeting sectors like agriculture, coastal and marine protection, and disaster risk reduction, PPPs build resilience in areas most affected by climate change, ensuring these cities are better prepared for extreme weather events and changing climate conditions.

- **Strengthened Institutional Frameworks:** PPPs support the development of stronger regulatory frameworks and institutional capacity, promoting transparency, accountability, and efficient management of climate action-related projects. This helps ensure long-term alignment with Sri Lanka's climate goals.

SUBSIDIES FOR GOOD AGRICULTURAL PRACTICES (GAP)

OVERVIEW

Objective	Support sustainable agriculture through the implementation of Good Agricultural Practices (GAP) by redirecting government subsidies and providing technical assistance to farmers for organic farming and climate-smart agriculture.
Product Description	Government subsidies important in supporting the adoption of Good Agricultural Practices (GAP), helping to expand organic farming and promote other sustainable agricultural systems. These subsidies can take various forms, including tax incentives, technical assistance, and price support, and are designed to benefit a wide range of stakeholders—farmers, companies, and organizations alike. By providing this financial and technical backing, governments can encourage a transition toward more environmentally responsible farming practices that protect natural resources and improve the overall sustainability of the agricultural sector.
Targeted segment	Expected to impact smallholder farmers and rural communities across Sri Lanka, particularly those affected by climate change and environmental degradation, potentially involving tens of thousands of farmers.
Product proposal	Provide government subsidies in the form of financial support, tax incentives, price support, technical assistance, and materials (seeds, organic inputs) to promote GAP adoption and sustainable farming practices across vulnerable regions.
Timeframe for development	Short to medium-term development, with 1-2 years to set up the framework and distribute initial subsidies, and 2-4 years to see broader adoption and impact across the agricultural sector.
Maturity of product	Moderate; GAP principles and related subsidies exist but need reform and better alignment with sustainability goals. Organic farming practices and climate resilience in agriculture are at early stages but show promise for expansion.
Potential partners	Key partners include multilateral official development partners, multilateral financial organizations, local agricultural organizations, and community leaders.

Good Agricultural Practices (GAP)[33] consist of a set of principles, guidelines, and technical recommendations aimed at promoting sustainable and safe food production. These practices serve multiple purposes: protecting human health, preserving the environment, and improving the well-being of agricultural workers. GAP plays a vital role in ensuring food safety and quality by reducing the risk of contamination at every stage—from production and handling to storage and transportation. GAP advocates for environmental sustainability, promoting the careful and efficient use of natural resources such as water, soil, and biodiversity, while seeking to prevent environmental damage. A key focus of GAP is the improvement of working conditions for farm laborers, emphasizing their safety, health, and fair treatment. Additionally, it supports ethical animal husbandry in agricultural systems. From an economic perspective, GAP helps farmers gain better market access by enhancing the quality and sustainability of their products, leading to higher incomes and contributing to food security.

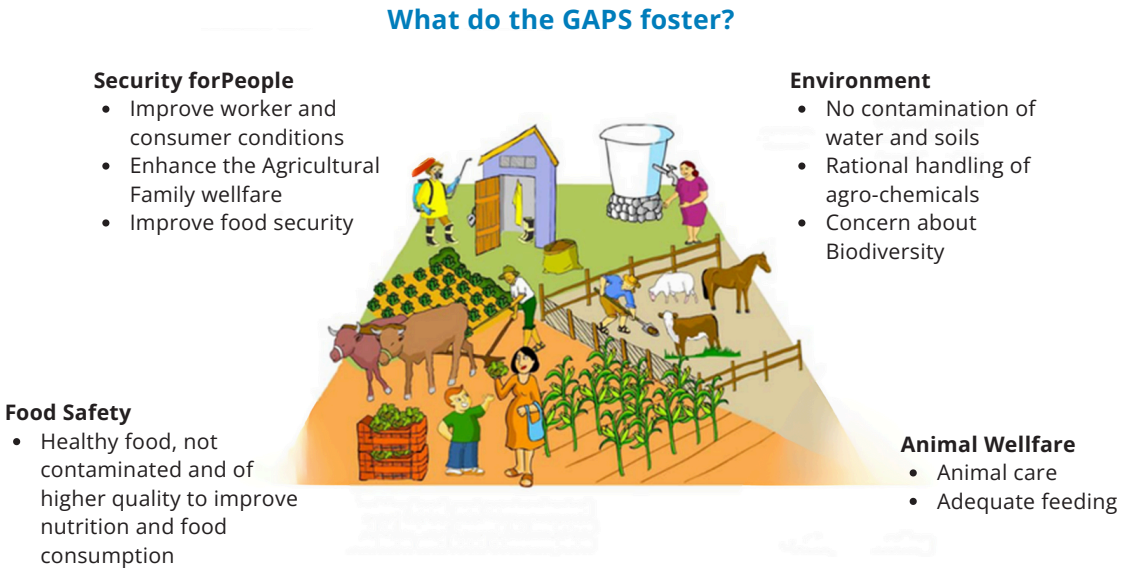


Figure 2 *What do the GAPs foster, according to FAO?*

Global agricultural subsidies estimated at around USD 500 billion annually by the OECD, often lead to environmental degradation through habitat destruction, soil depletion, and nutrient pollution.[34] Subsidies for GAP offer benefits by promoting sustainable farming and environmentally sound practices. Currently, many agricultural subsidies, such as the schemes in India, are directed toward activities that deplete natural resources and harm biodiversity. For instance, fertilizer subsidies often encourage the cultivation of monoculture crops such as rice and wheat, which leads to soil degradation and pollution. By redirecting subsidies to support GAP, governments can encourage more sustainable farming practices that conserve essential resources like soil and water, protect biodiversity, and curb the excessive use of harmful inputs. This shift could improve economic outcomes for farmers by aligning financial incentives with eco-friendly practices, enhancing the long-term viability of their livelihoods. Additionally, subsidies aimed at GAP can help address broader concerns like climate resilience and food security. Since GAP emphasizes reducing GHG emissions while optimizing resource management, and fostering crop diversification, it makes farming systems more resilient to climate-related challenges. These practices also encourage the cultivation of a wider variety of crops, improving both the nutritional value of food and the environmental health of agricultural lands.

33 FAO, (2007), Guidelines "Good Agricultural Practices for Family Agriculture - https://www.fao.org/4/a1193e/a1193e00.pdf
34 BIOFIN, (2024), Repurposing agricultural subsidies for the benefit of farmers and nature - https://www.biofin.org/news-and-media/repurposing-agricultural-subsidies-benefit-farmers-and-nature

RELEVANT CASE STUDIES

The following case studies[35] illustrate how subsidies could reduce dependence on synthetic inputs, enhance environmental sustainability, and increase farmers' resilience to climate change.

The Floating Gardens system in Bangladesh, developed for flood-prone regions where lands are submerged for 6–8 months each year, uses organic materials like water hyacinth to create floating beds for growing crops. This climate-smart approach, is particularly relevant to GAP because it minimizes reliance on synthetic fertilizers and encourages organic farming. The system allows farmers to diversify crops, use eco-friendly organic inputs, and reduce environmental impact. Quantitatively, farmers utilizing floating gardens can earn an average gross return of USD 265 and a net return of USD 134 per season, compared to earning a gross return of USD 31 and net return of USD 10 from farming on normal land. The lack of chemical fertilizers further reduces costs and environmental harm, while the decomposed biomass from floating beds can serve as organic fertilizer for winter crops. Subsidies for materials like bamboo and organic plant matter could support the adoption and expansion of this sustainable farming system. Such subsidies would not only boost productivity and profitability for smallholders but also contribute to resource conservation and improve resilience to climate-induced flooding. The success of this method demonstrates the value of targeted subsidies in promoting environmentally sound and economically viable agricultural practices.

The Sloping Agricultural Land Technology (SALT) system was introduced in the Philippines after Typhoon Haiyan devastated 600,000 hectares of farmland in 2013. SALT involves planting nitrogen-fixing trees like Gliricidia sepium along sloping land contours to stabilize soil, prevent erosion, and foster biodiversity. By integrating agroforestry and crop rotation, SALT aligns closely with GAP principles by reducing the need for chemical fertilizers and promoting ecological diversity. 101 SALT sites were established in typhoon-affected areas, benefitting 2,265 households and 74 community-based organizations. Farmers in these regions now harvest a range of short-term, medium-term, and perennial crops, which reduces the impact of pests and diseases and lowers chemical input needs. Providing subsidies for nitrogen-fixing trees, technical consultations, and water conservation infrastructure would help expand SALT's adoption, incentivizing sustainable land management, increasing farmer incomes, and improving the overall resilience of farming communities. By focusing on long-term support, these subsidies could transform SALT into a model for climate-resilient, sustainable agriculture in sloping terrains.

SRI LANKA CONTEXT

Sri Lanka's Fertilizer Cash Grant (FCG) programme, reintroduced in 2023,[36] aims to support small-scale paddy farmers by offering financial assistance of up to LKR 25,000 (~USD 84) per hectare, each year. The main objective of the programme is to reduce farmers' dependence on synthetic fertilizers and encourage the shift toward organic farming, ultimately promoting more sustainable agricultural practices.

35 FAO, (2018), Climate-Smart Agriculture: Case studies 2018 - https://openknowledge.fao.org/server/api/core/bitstreams/2231e34d-7573-4c1a-afb4-e9a5f01f31b6/content

36 IFPI (2024), Sri Lanka's New Fertilizer Cash Grant (FCG) Scheme for paddy - [1] IFPI (2024), Sri Lanka's New Fertilizer Cash Grant (FCG) Scheme for paddy - https://cgspace.cgiar.org/server/api/core/bitstreams/134364c2-2a79-4487-b7a0-61ae2bf4db5a/content

However, despite these positive intentions, many farmers remain wary due to past experiences with subsidy programmes that were plagued by delays, insufficient funding, and a lack of transparency. There are also concerns that the current grant is inadequate and cannot cover the rising costs of fertilizer. The downside and a risk of this strategy is that some smallholder farmers could use this grant to meet immediate household needs, which weakens its intended impact on sustainable farming.

To improve the effectiveness of future subsidies aimed at supporting GAP, a better governance is crucial, with an emphasis on ensuring that funds are distributed on time and in a transparent manner, helping to rebuild trust between farmers and the government. It has also been suggested that subsidies should go beyond cash grants and include direct support in the form of seeds, fertilizers, and machinery, so that farmers receive the inputs they need most. Additionally, it would be transformative if training programmes were introduced to help farmers understand the benefits of sustainable farming and how to make best use of the grants. It is essential to implement more robust targeting mechanisms to accurately identify beneficiaries, coupled with monitoring systems to ensure grants are used as intended. Involving local community leaders in the implementation process and offering long-term support, rather than limiting aid to a single season, would further strengthen the impact of these programmes, creating a more sustainable and resilient agricultural sector.

A few green subsidies[37] aiming to protect agriculture, promoting sustainable resource use, improving crop resilience, and supporting high-value crop cultivation could enhance sustainable agricultural practices in Sri Lanka. These insights highlight several types of green subsidies that could be adapted to Sri Lanka's unique agricultural landscape, aligning with the country's goals for sustainable development and climate resilience.

Fertilizer and Soil Health Subsidies

In line with the FCG's goals, subsidies could directly promote the adoption of organic fertilizers, soil amendments, and bio-fertilizers for soil health improvement.

- **Target Crops:** Rice, high-value vegetables (e.g., tomatoes, bell peppers, cucumbers), and leafy greens, which are sensitive to chemical inputs could benefit significantly from organic fertilization.
- **Potential for Greening Existing Subsidies:** The FCG could be restructured to provide subsidies in the form of organic fertilizers and trainings in composting techniques rather than cash grants, ensuring funds are spent specifically on soil health.

Protected Agriculture and Water Management Support

Subsidies could support protected agriculture techniques (e.g., poly-tunnels, net-houses) and efficient water management systems, such as drip irrigation, which reduce water use and pesticide dependency.

- **Target Crops:** High-value vegetables or herbs, that benefit from protected cultivation to maintain quality and yields.
- **Potential for Greening Existing Subsidies:** The current subsidy could integrate water-saving irrigation kits and basic protected agriculture infrastructure for regions facing water scarcity, helping to ensure sustainable and efficient water use.

37 H.K.P.P. Kariyawasam, W.L.N. Wasana, and M.R.C.P. Wickramasinghe, (2023), Perspective of Protected Agriculture in Sri Lanka: A Revie https://www.researchgate.net/publication/369218237_Perspective_of_Protected_Agriculture_in_Sri_Lanka_A_Review

Renewable Energy for Agriculture

A subsidy could cover part of the cost of renewable energy installations, such as solar-powered pumps, to reduce farmers' dependency on fossil fuels for irrigation and other farm activities.

- **Target Crops:** Vegetables, fruits, and other water-intensive crops that would benefit from efficient, renewable energy-based irrigation.
- **Potential for Greening Existing Subsidies:** This could complement existing cash grants by offering a dedicated fund for renewable energy solutions, which would help reduce the carbon footprint associated with agricultural operations.

Post-Harvest Handling and Reduced Food Waste Support

Subsidies for cold storage units, packaging, and transportation to prevent food spoilage and reduce waste.

- **Target Crops:** Highly perishable crops, including tomatoes, leafy greens, and tropical fruits, which have a short shelf life and are prone to post-harvest losses.
- **Potential for Greening Existing Subsidies:** This could be linked to the FCG by subsidizing storage and transport solutions that keep produce fresh and minimize waste, effectively extending the benefit of the subsidy beyond the growing season.

STEPS FOR IMPLEMENTATION

Strategic Direction	Description
1. Conduct a Needs Assessment and Targeting Analysis	Identify specific regions, farmer profiles, and crop types that would benefit most from GAP subsidies. Perform an analysis of current subsidy programmes to determine gaps and areas of overlap. Use findings to prioritize target areas and crops for initial rollouts.
2. Tailored Pilot Regions	Prioritize the restructuring of current subsidies (e.g. fertilizer subsidies) to incentivize GAP-compliant practices, such as offering higher support for crop diversification and organic inputs.
3. Design and Launch Pilot Programmes	Develop pilot programmes in selected regions, offering different subsidy models (e.g., direct cash grants, vouchers for organic inputs, tax relief) to evaluate effectiveness. Tailor pilots to local environmental needs, farmer income levels, and market conditions.
4. Develop a Multi-tier Subsidy Structure	Establish a tiered subsidy framework that provides different levels of support based on the scale of farming operations and GAP readiness. For example, smallholders may receive higher support percentages, while large farms receive incentives tied to specific GAP goals.
5. Set Up Farmer Education and Support Centers	Create local support centers that provide training, demonstrations, and resources on GAP and climate-smart practices. Partner with agricultural universities and NGOs to deliver these services, ensuring farmers have year-round access to technical advice.

6. Implement Digital Monitoring Tools	Introduce mobile or web-based tools for real-time tracking of subsidy disbursement and usage. These tools should enable farmers to report how funds are used and facilitate government monitoring. Use GPS and satellite imagery where feasible to assess farm practices.
7. Measure and Analyze Pilot Outcomes	After the pilot phase, conduct a comprehensive evaluation focusing on productivity, soil health, resource use, and farmer income. Use insights to refine subsidy structures, targeting methods, and support programmes for a broader rollout.
8. Expand and Adjust Programmes Based on Results	Scale up effective pilot programmes and subsidies across more regions, using an iterative approach to adapt subsidy levels, criteria, and eligibility as needed. Focus on replicating successful models in similar agricultural zones and refining subsidies to meet evolving needs.

ANTICIPATED RESULTS

- **Increased Adoption of Sustainable Farming Practices:** With financial support aimed at encouraging organic farming and resource-efficient methods, more farmers are likely to adopt GAP. This shift will reduce the reliance on synthetic fertilizers and harmful inputs, leading to more environmentally sustainable agricultural practices across the country.

- **Enhanced Soil and Water Conservation:** By promoting GAP principles such as crop diversification, organic inputs, and better resource management, the subsidies will help conserve soil health and protect water resources. This will mitigate environmental degradation, reduce soil erosion, and improve the long-term productivity of agricultural land.

- **Improved Farmer Resilience and Income:** With the introduction of sustainable farming methods and reduced dependency on costly chemical inputs, farmers' operational costs will decrease, leading to higher net incomes. Additionally, increased crop diversification will reduce vulnerability to market fluctuations and climate shocks, making farmers more resilient.

- **Boost in Organic and Eco-Friendly Product Markets:** The expansion of organic farming, supported by GAP subsidies, will open up new market opportunities for farmers, both domestically and internationally. As demand for eco-friendly and organic products rises, Sri Lankan farmers will gain better access to premium markets, enhancing their profitability and market competitiveness.

- **Positive Environmental and Climate Impact:** The reduction of chemical fertilizers and the promotion of biodiversity-friendly farming will contribute to lower GHG emissions and enhanced carbon sequestration. This will support Sri Lanka's broader climate goals and contribute to global efforts in combating climate change.

GREEN, BLUE, SUSTAINABILITY OR SUSTAINABILITY LINKED BONDS

OVERVIEW

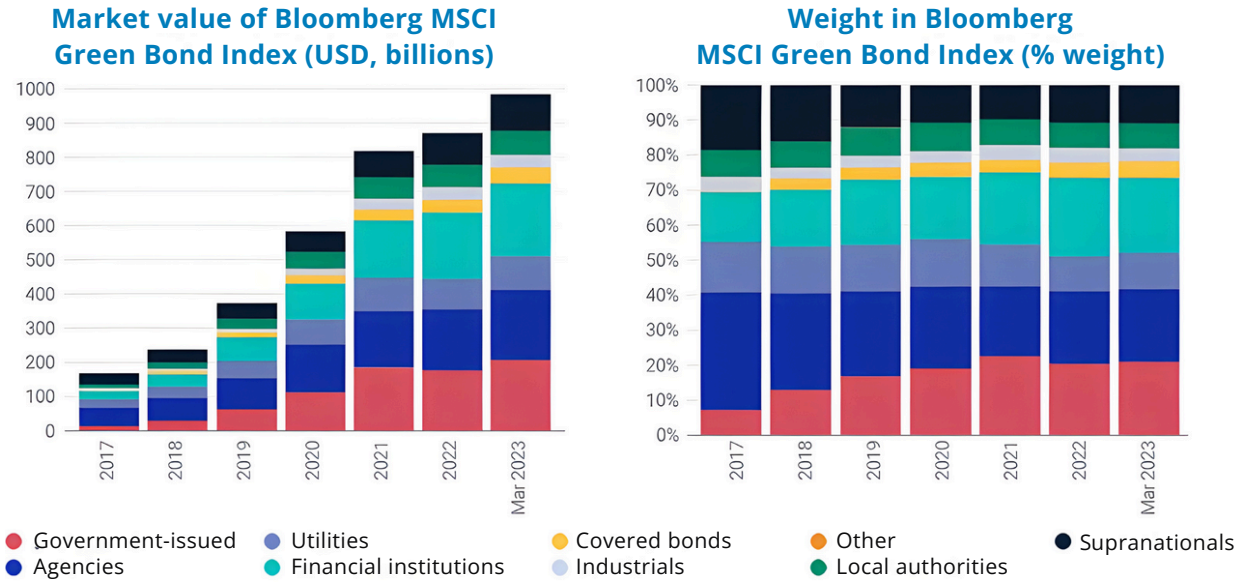
Objective	Issue sovereign green, blue, sustainability or sustainability-linked bonds to fund projects which are environmentally and/or sustainability focused, such as renewable energy (onshore or offshore), waste management, and biodiversity conservation, contributing to Sri Lanka's carbon net zero goal by 2050.
Product Description	Sovereign green, blue, sustainability or sustainability-linked bonds are financial tools issued by governments to fund environmentally and sustainability focused projects and sustainable development efforts.[38] These bonds enable governments to raise capital for initiatives like renewable energy (onshore and offshore), marine PAs, energy efficiency, clean transportation, and climate change adaptation. The issuance of sovereign green, blue, sustainability or sustainability-linked bonds plays a crucial role in fostering the growth of private green bond markets. By setting standards for transparency, reporting, and verification, governments create a benchmark for corporate issuers, encouraging more companies to participate in the green, blue, sustainability or sustainability-linked bonds space.
Expected size	The first issuance will highly depend on the availability of green, blue or sustainable projects for a use of proceeds (UoP) bonds but it should exceed USD 250 million to justify the cost and effort. The size of the sustainability-linked bond (SLB) will depend on capital demand from the government of Sri Lanka and the robustness of the KPIs associated with the bond.
Product proposal	Issuance of sovereign bonds, with proceeds directed exclusively to green, blue or sustainability projects, aligning with ICMA, ASEAN and Sri Lanka's climate and sustainability goals. Alternatively, the issuance of an SLB aligned with international standards from ICMA, ASEAN, and CBI.
Timeframe for development	Medium-term: 3–5 years for framework development, external validation, market issuance, and initial implementation. Full market adoption and capital inflow expected within this timeframe.
Maturity of product	Sri Lanka has completed the sovereign Green/Blue Bond Framework and has obtained the Second Party Opinion (SPO) from an international rating agency. The country is now in the process of developing a sovereign SLB Framework aligned with international standards from ICMA, ASEAN, and CBI.

38 IMF (2024), Sovereign Green Bonds: A Catalyst for Sustainable Debt Market Development? - https://www.imf.org/en/Publications/WP/Issues/2024/06/14/Sovereign-Green-Bonds-A-Catalyst-for-Sustainable-Debt-Market-Development-550527

Potential partners	Multilateral official development partners, multilateral financial organizations, the Central Bank of Sri Lanka, global institutional investors, local financial institutions, and environmental NGOs.

Sovereign green, blue, sustainability or sustainability-linked bonds enhance credibility and at the same time could address financial information gaps, improve market liquidity, and contribute to more efficient pricing. This is particularly impactful in countries with strong climate policies, where these bonds help increase both the volume and quality of corporate UoP bond issuances. Furthermore, sovereign green, blue, sustainability or sustainability-linked bonds build investor confidence through rigorous sustainability reporting and verification processes. Governments must provide detailed information on how funds are used and the environmental and sustainable benefits of financed projects, which strengthens trust among investors. In doing so, sovereign green, blue, sustainability or sustainability-linked bonds not only drive the transition to a more resilient economy but also contribute to the growth of the broader sustainable finance landscape.

Especially, the issuance of sovereign UoP bonds show a significant rise from just 7% in 2017.[39] By March 2023, the UoP bond market had grown to USD 986 billion, with sovereign issuers playing a pivotal role in funding large-scale environmental projects, including biodiversity conservation and climate adaptation efforts. Sovereign UoP bonds typically have longer durations, which impact the index by increasing its sensitivity to interest rate fluctuations. Between 2017 and 2021, these bonds made a substantial contribution to index returns. This trend underscores the role of sovereign issuances in shaping the wider sustainable bond market by setting benchmarks for private and corporate issuers while offering investors access to high-impact, national-level projects.



Dates represent Dec. 31 of each stated year, except for 2023, where the data is as of March 31. "Government-issued" bonds refer to all sovereign issuance, as either local-currency sovereign bonds or hard-currency sovereign bonds.
Source: Bloomberg MSCI Green Bond Index, MSCI ESG Research, MSCI's BarraOne®

Figure 3 *The growing share of government-issued green bonds*

39 MSCI (2023), How Sovereigns Have Changed the Green-Bond Market - https://www.msci.com/www/blog-posts/how-sovereigns-have-changed-the/03778801668

SRI LANKA CONTEXT

As Sri Lanka is already exploring innovative financing options for green and blue initiatives, the MoF has already drafted a sovereign Green/Blue Bond Framework and solicited SPO by an international rating agency to validate that the framework meets international standards and enhance the credibility of green initiatives. Sri Lanka's participation in the World Bank's Biodiversity Financing Forum highlighted the country's interest in nature-linked Green Bonds, with the aim to raise USD 11.26 billion by 2030 for renewable energy, which is in line with its 2050 carbon net zero target. The launch of Green Bonds by private entities and the overwhelming subscription to such bonds indicate a growing awareness and acceptance amongst Sri Lankan investors, including the retail investors, for such non-conventional products.

To successfully implement UoP Bonds in Sri Lanka, the government and financial institutions must prioritize adhering to the Green Bond Principles (GBPs) outlined in the IFC's Green Bond Handbook.[40] It is also important to establish a comprehensive Sustainable Bond Framework that aligns with Sri Lanka's sustainability goals, particularly its commitment to renewable energy and carbon net zero by 2050. The MoF is already exploring the possibility of drafting a SLB Framework to build investor trust.

The government of Sri Lanka must commit to regular reporting, providing investors with detailed updates on how funds are spent and the related environmental outcomes of financed projects. Transparent reporting will not only meet investor expectations but will also position Sri Lanka as a leader in sustainable finance within emerging markets. By following these strategies, Sri Lanka can unlock significant capital for sustainable development and boost investor confidence in its green, blue, sustainability or sustainability-linked bonds.

STEPS FOR IMPLEMENTATION

Strategic Direction	Description
1. Developing the Sustainability Bond Framework	Develop a detailed framework aligned with international principles and guidance from ICMA and ASEAN to guide project selection, eligibility criteria, and impact measurement. Ensure the framework is adaptable to the unique requirements of green, blue, and sustainability projects.
2. Capacity Building and Knowledge Sharing	Conduct capacity-building workshops for stakeholders, including government departments, private investors, and multilateral official development partners, on structuring and implementing green, blue, sustainability and sustainability-linked bonds. Share lessons learned from successful issuances from peer countries.
3. Targeted Project Pipeline Development	Identify and prioritize high-impact projects for green, blue, sustainability or sustainability-linked bond funding (e.g. renewable energy, biodiversity conservation, or sustainable infrastructure projects). Develop feasibility studies and ensure projects are aligned with national development priorities.

40 IFC (2022), Green Bond Handbook: A Step-By-Step Guide To Issuing A Green Bond - https://www.ifc.org/content/dam/ifc/doc/mgrt/202203-ifc-green-bond-handbook.pdf

4. Stakeholder Engagement and Marketing	Engage potential investors, including international institutions, sovereign wealth funds, and ESG-focused funds, to showcase the risk-return profiles and impact metrics of green, blue, sustainability or sustainability-linked bonds. Leverage roadshows and investor forums to generate interest.
5. Third-Party Certification and Reporting Mechanisms	Hire recognized certification agencies to validate the framework through a SPO and ensure compliance with relevant principles and guidance. Establish transparent reporting mechanisms to monitor the allocation of bond proceeds and impact outcomes.
6. Risk Mitigation Strategies	Develop strategies to address potential risks, such as insufficient investor demand or project delays, including guarantees or risk-sharing mechanisms with multilateral banks and private financiers.

ANTICIPATED RESULTS

- **Targeted Investment in Key Environmental Projects:** The green and blue bonds would secure dedicated funding for specific projects such as expanding renewable energy capacity, improving waste management systems, and enhancing biodiversity conservation efforts, all aligned with Sri Lanka's sustainability and carbon net zero targets.

- **Attraction of International Climate Finance:** By adhering to global standards and transparent reporting requirements, the green, blue, sustainability or sustainability-linked bonds are likely to attract international investors and institutions focused on climate finance, leading to a broader, more stable flow of capital for green initiatives.

- **Catalyst for Developing Sri Lanka's Sustainable Finance Market:** The issuance would create a benchmark for corporate green, blue, sustainability or sustainability-linked bonds, encouraging more private sector participation. This would help establish a more robust sustainable finance market, increasing overall capital available for environmentally focused projects.

- **Measurable Progress on Emission Reductions:** The projects funded by the bond—especially in renewable energy and clean transportation—would directly contribute to lowering national carbon emissions, helping Sri Lanka meet its commitments to carbon net zero by 2050.

- **Improved Sovereign Credit and Investment Standing:** Successfully managing the green, blue, sustainability or sustainability-linked bonds, along with transparent use of funds and measurable environmental impact, could enhance Sri Lanka's international reputation and potentially improve creditworthiness in the context of sustainable investments.

GREEN LOANS

OVERVIEW

Objective	Financing environmentally sustainable projects in Sri Lanka, such as renewable energy, energy efficiency, pollution control, and sustainable land use, through green loans aligned with the Green Loan Principles (GLP).
Product Description	Green loans are a financial tool designed to fund environmentally sustainable projects, offering financing specifically tied to green initiatives. These loans, governed by the GLP established in 2018,[41] are used for projects that deliver tangible environmental benefits, such as renewable energy development, sustainable land use, pollution prevention, and energy efficiency. Unlike traditional loans, green loans are aimed at tackling environmental challenges like climate change and biodiversity loss, ensuring that financial resources are allocated to projects with a positive environmental impact.
Expected size	Channelling significant capital into green projects, with potential loan volumes reaching hundreds of millions of dollars as demand for sustainable finance grows among businesses, government initiatives, and infrastructure projects.
Product proposal	Establish green loan schemes governed by the GLP, with a focus on financing projects that provide measurable environmental benefits, such as renewable energy development, pollution prevention, and sustainable agriculture.
Timeframe for development	Medium-term: 2–3 years for regulatory framework establishment, adoption by financial institutions, and full integration into national banking systems. Broader market adoption and scaling over 5–6 years.
Maturity of product	Early to moderate stage; while Sri Lankan banks have started funding green projects, the structured adoption of green loans in line with GLP is still developing and requires regulatory and institutional support to grow.
Potential partners	Multilateral official development partners, multilateral financial organizations, Central Bank of Sri Lanka, private sector banks, Loan Market Association (LMA), and local businesses.

41 LMA (2018), Green Loan Principles: Supporting environmentally sustainable economic activity - https://www.lma.eu.com/application/files/9115/4452/5458/741_LM_Green_Loan_Principles_Booklet_V8.pdf

The GLP provide a solid global framework to ensure that green loans maintain a high level of environmental integrity and that funds are allocated to projects with verifiable environmental benefits. The framework is built around four main components: UoP, project evaluation and selection, management of proceeds, and reporting. Loan proceeds must be used exclusively for environmentally-friendly projects, with borrowers clearly outlining their environmental objectives. The project evaluation process adheres to strict sustainability criteria, ensuring alignment with global environmental and development goals. Additionally, borrowers are required to manage the funds transparently, maintaining separate accounts to track the allocation of loan proceeds. Accountability and transparency are key to the success of green loans.

Under the GLP, borrowers must provide regular reports on how the funds are being used and their environmental impact, supported by both qualitative and quantitative data. This reporting allows lenders and other stakeholders to monitor the loan's progress in achieving sustainability objectives. In some cases, borrowers may also seek third-party certification for their green projects, further validating their environmental credentials and increasing trust among investors. Demand for green loans has surged in recent years, as businesses and governments increasingly align their financial strategies with sustainability goals. Green loans align directly with the objectives of green banking, as both aim to reduce environmental impact while promoting sustainable economic growth. In 2024, the global green loan market reached USD 907 billion, an increase by 17% compared to the same period in 2023.[42]

SRI LANKA CONTEXT

As Sri Lanka embarks on its journey toward sustainable development, green loans represent a significant opportunity for financing environmentally friendly projects that align with the country's climate goals. Given the increasing awareness of the environmental challenges posed by conventional economic activities, Sri Lanka is well-positioned to adopt green loans as a means of funding projects related to renewable energy, energy efficiency, and pollution reduction. However, the successful implementation of green loans requires a well-coordinated strategy involving both government policies and active engagement from financial institutions.

One of the first steps Sri Lanka must take is to establish a robust regulatory framework that encourages banks and financial institutions to participate in green loan schemes. This can be done by aligning green loan regulations with the GLP developed by the LMA and other leading financial bodies. These principles provide a clear framework for ensuring that loans are used for verifiable green projects. By setting clear guidelines on the UoP, evaluation processes, and reporting requirements, Sri Lanka can ensure that green loans have a tangible environmental impact and maintain transparency throughout the lending process.

The expansion of green banking initiatives in Sri Lanka is strongly tied to the country's readiness to adopt green loans as a significant financial mechanism to foster sustainability. A detailed analysis of the adoption of the eco-conscious policies by Sri Lanka's leading banks has shown that green banking encompasses a broad spectrum of practices,[43] from reducing paper usage and managing e-waste to financing energy-efficient infrastructure and environmentally beneficial projects. These efforts lay the foundation for the introduction and growth of green loans across Sri Lanka.

---

42 BBVA (2025), Green and Sustainability-Linked Loan - https://www.bbvacib.com/green-and-sustainability-linked-loan-newsletter/#:~:text=The%20sustainable%20loan%20market%20demonstrated,the%20total%20sustainable%20loan%20volume.

43 Shaumya, K. and Arulrajah, Anthonypillai, (2016), Measuring Green Banking Practices: Evidence from Sri Lanka - https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2909735

With Sri Lankan banks already embracing sustainability, they are well-positioned to offer green loans as part of their broader environmental commitments. Several private sector banks, are already funding renewable energy projects, positioning them to further scale up these initiatives through green loan offerings. Additionally, a framework for measuring green banking practices—covering employee involvement, operational efficiency, customer-centric green initiatives, and policy-driven approaches—can guide banks in expanding their green loan portfolios.

By evaluating these initiatives and aligning with global standards, Sri Lankan banks can refine their processes for issuing green loans. This not only supports national environmental objectives but also appeals to socially responsible investors who are increasingly drawn to sustainable financing options. The foundations laid by Sri Lanka's green banking movement are critical to the successful roll-out of green loans. As financial institutions continue to adopt environmentally responsible practices, green loans represent the next logical step in financing the country's shift toward sustainability. Expanding green lending will not only help Sri Lanka achieve its climate goals but also strengthen the long-term competitiveness and sustainability of the banking sector itself.

STEPS FOR IMPLEMENTATION

Strategic Direction	Description
1. Develop Clear Eligibility Criteria	Develop a detailed framework aligned with international principles and guidance from ICMA and ASEAN to guide project selection, eligibility criteria, and impact measurement. Ensure the framework is adaptable to the unique requirements of green, blue, and sustainability projects.
2. Promote GLP Compliance	Conduct capacity-building workshops for stakeholders, including government departments, private investors, and multilateral official development partners, on structuring and implementing green, blue, sustainability and sustainability-linked bonds. Share lessons learned from successful issuances from peer countries.
3. Capacity Building for Financial Institutions	Identify and prioritize high-impact projects for green, blue, sustainability or sustainability-linked bond funding (e.g. renewable energy, biodiversity conservation, or sustainable infrastructure projects). Develop feasibility studies and ensure projects are aligned with national development priorities.
4. Pilot Green Loan Programmes	Launch pilot green loan schemes targeting sectors like renewable energy for SMEs, energy-efficient housing, or sustainable agriculture. Evaluate pilot outcomes to refine loan terms and expand offerings.
5. Public Awareness Campaigns	Implement targeted campaigns to raise awareness among potential borrowers about the benefits of green loans. Provide practical information on application processes and eligibility.
6. Risk Sharing Mechanisms	Establish risk-sharing agreements between the government, financial institutions, multilateral banks, and international climate funds to mitigate the perceived risks of lending to green projects.

7. Incentives for Borrowers	Offer interest rate subsidies or extended loan tenures to encourage uptake among individuals and businesses transitioning to green practices.
8. Establish Monitoring and Reporting Standards	Set up a robust system for tracking the use of green loans, measuring environmental benefits, and ensuring accountability. Publish annual reports highlighting key impact and success stories.

ANTICIPATED RESULTS

- **Increased Funding for Sustainable Projects:** Green loans will channel much-needed capital into projects like renewable energy, sustainable land use, and pollution control, accelerating progress toward national climate goals.
- **Job Creation in Green Sectors:** Expanding green financing will lead to the creation of jobs in renewable energy, sustainable agriculture, and green construction, boosting employment in emerging sectors.
- **Enhanced Climate Resilience:** Loans targeted at climate adaptation projects, like flood control and coastal protection will improve Sri Lanka's resilience to natural disasters, reducing the economic and social costs of climate impacts.
- **Strengthened Financial Market for Green Investments:** The integration of green loans would establish a more mature green finance sector, encouraging sustainable investments and positioning Sri Lanka as a leader in climate-aligned finance within the region.

INCREASING OFFICIAL DEVELOPMENT ASSISTANCE

OVERVIEW

Objective	Enhance the management and allocation of Official Development Assistance (ODA) in Sri Lanka to support critical areas like climate resilience, infrastructure development, and sustainable growth while aligning with international best practices.
Product Description	ODA financing was established[44] by the OECD's Development Assistance Committee (DAC) in the early 1960s to ensure consistent measurement of donor contributions to global development. ODA was designed to support the economic development and welfare of developing countries through concessional financing, including grants and loans. Over the years, ODA has grown to incorporate more sophisticated financial instruments to address the evolving landscape of development finance to become an essential tool for fostering economic growth, poverty reduction, and social development. In 2023, DAC members contributed a total of approximately USD 223.3 billion in net ODA, making it a significant channel for addressing global challenges.
Expected size	ODA funding is expected to continue contributing significant financial resources to Sri Lanka, with over USD 2 billion in ODA received annually from 2021 to 2024, supporting projects in areas like renewable energy, infrastructure, and climate adaptation.
Product proposal	Develop legal, institutional, and strategic frameworks for ODA management, implement capacity-building programmes, improve monitoring and evaluation (M&E) systems, and enhance ODA reporting capabilities to maximize the impact of development aid.
Timeframe for development	Medium-term: 3–5 years to establish new frameworks, capacity-building initiatives, and M&E systems, with gradual scaling over 5–7 years to fully optimize ODA management and reporting processes.
Maturity of product	Moderate; Sri Lanka has a history of receiving ODA, but improvements are needed in terms of governance, transparency, and reporting to better align with international standards and optimize the use of funds.
Potential partners	Multilateral official development partners, multilateral financial organizations, bilateral donors, local implementing agencies, and NGOs.

44 OECD (2013), The Evolution of Official Development Assistance: Achievements, Criticisms and a Way Forward - https://www.oecd-ilibrary.org/docserver/5k3v1dv3f024-en.pdf expires=1726491336&id=id&accname=guest&checksum=E737BE565C3528BBF27C77127DA1724E

While ODA traditionally emphasized the provision of grants and concessional loans, its evolving definition now includes diverse instruments, including equity investments. ODA supports project preparation and feasibility studies by funding technical assistance and advisory services. ODA also helps recipient countries strengthen their institutional capacities and design robust project frameworks that meet international standards. One of the key roles of ODA today is de-risking investments in high-risk environments, primarily through guarantees and blended finance mechanisms. By offering guarantees, ODA helps mitigate potential financial risks, making it more attractive for private investors to fund projects in sectors like renewable energy and infrastructure. Blended finance combines concessional ODA resources with private capital as an effective strategy for leveraging additional financial flows.

As the concept of ODA continues to evolve, maintaining a clear focus on transparency and development impacts will be essential to ensure that it remains a credible and effective tool for global development.

SRI LANKA CONTEXT

In the last 5 years, Sri Lanka received USD 10.7 billion as loans and USD 147.9 million as grants, totalling to USD 10.9 billion ODA in support of mega projects and soft infrastructure such as health and education. The terms under which ODA is provided to the country has changed along with the country's GDP per capita. This is also reflected in Sri Lanka's downward graduation to International Development Association (IDA) from International Bank for Reconstruction and Development (IBRD).

STEPS FOR IMPLEMENTATION

Strategic Direction	Description
1. Strengthen Strategic Alignment	Align ODA funding priorities with national development goals and climate action strategies. Identify key sectors, such as renewable energy, water resource management, and climate resilience for targeted assistance.
2. Enhance Coordination Mechanisms	Strengthen the Department of External Resources (ERD) which is the dedicated coordination unit within the government to streamline ODA financing and strengthen the role of the Public Investment Committee through capacity building.
3. Develop High-Impact Project Portfolios	Create a pipeline of bankable, high-impact projects that align with donor priorities and address critical gaps in national development efforts. Include detailed feasibility studies and cost-benefit analyses.
4. Promote Blended Finance Models	Use ODA to catalyse private sector investments by offering co-financing, guarantees, or risk-sharing mechanisms. Highlight successful examples to attract additional funding.
5. Expand Partnerships with Donors	Strengthen relationships with key bilateral and multilateral donors. Organize donor roundtables to present project pipelines and explore funding opportunities.
6. Monitoring and Impact Evaluation	Develop a centralized system to monitor ODA project progress and assess outcomes. Publish regular updates and impact reports to demonstrate transparency and accountability.
7. Foster Community Engagement	Ensure local stakeholder involvement in ODA project planning and implementation to enhance relevance, acceptance, and sustainability of outcomes.

ANTICIPATED RESULTS

- **Increased Financial Support for Climate Resilience:** Provide crucial funding for climate adaptation and mitigation projects in Sri Lanka, enhancing efforts to combat deforestation, coastal erosion, and ecosystem degradation.

- **Strengthened Infrastructure Development:** Continue supporting critical infrastructure projects, such as renewable energy and water management systems, which are key to enhancing climate resilience and sustainable development.

- **Improved Climate Governance:** Support will be channeled to Sri Lanka to strengthen its legal, institutional, and reporting frameworks for ODA management, leading to better coordination, transparency, and accountability in the allocation of climate finance.

- **Capacity Building for Sustainable Development:** Facilitate capacity-building initiatives, enabling government officials and institutions to better manage ODA related climate finance and implement climate-focused projects efficiently.

- **Enhanced Global Partnerships and Funding:** Focus on leveraging additional global resources and partnerships enable Sri Lanka to access more international climate finance, further increasing the scope and impact of climate resilience initiatives.

- **Greater Public Awareness and Engagement:** By promoting transparency and communicating the impact of ODA-funded projects, the Strategy will foster greater public support for climate action, helping to build a more sustainable and resilient future for Sri Lanka.

NATURAL CAPITAL ACCOUNTING IN NATIONAL ACCOUNTS

OVERVIEW

Objective	As per the draft Green Book of Sri Lanka guidelines, integrate NCA into Sri Lanka's national economic and environmental frameworks, leveraging digital technologies to enhance the measurement and valuation of ecosystems and their services. This approach will streamline data collection, improve valuation accuracy, and support transparent and data-driven policy and investment decisions.
Product Description	NCA is a framework for measuring and valuing natural assets (or natural capital) such as ecosystems, land, water, and biodiversity, alongside the services they provide to people. It moves beyond traditional economic accounting, which primarily tracks financial and manufactured capital, by incorporating the environmental resources that underpin economic activity. NCA assigns a tangible economic value to ecosystem services like carbon storage, water purification, and flood protection, allowing for their inclusion in national accounts and economic decision-making. By integrating natural capital into national accounting systems, governments and businesses can quantify the true value of ecosystems and natural resources.
Expected size	Encompass national-level integration of NCA, focusing on priority ecosystems such as coastal areas, forests, and wetlands, with extensive data collection and collaboration among government agencies, businesses, and NGOs.
Product proposal	Establish a comprehensive NCA framework following the recommendations in the Green Book of Sri Lanka or any other acceptable guideline, as appropriate, involving the development of ecosystem extent, condition, service flow, and monetary ecosystem asset accounts to inform policy and investment.
Timeframe for development	Medium to long-term: 4–6 years to build institutional capacity, data systems, and integrate NCA into national accounts. Full scaling across sectors and ecosystems could take 6–8 years, depending on data availability and institutional readiness.
Maturity of product	Early stage: Sri Lanka is at the beginning of its journey toward NCA integration. Institutional capacity for data collection and the development of ecosystem accounts needs significant enhancement to align with the recommendations in the Green Book of Sri Lanka.
Potential partners	Multilateral official development partners, multilateral financial organizations, local environmental agencies, and businesses engaged in sustainability practices.

SRI LANKA CONTEXT

For NCA, the Green Book of Sri Lanka offers an overview and extensive analysis of various advanced and structured approaches to integrate environmental and economic data, focusing specifically on ecosystems, their services, and their contributions to human well-being and economic activity. The guidance evaluates 10 different valuation methods and application areas related to Sri Lanka.

To integrate the NCA of choice into Sri Lanka's national accounting system, there are several strategic steps that the country could take. First, Sri Lanka should begin by enhancing its institutional capacity for collecting spatially explicit environmental data. This data is crucial for monitoring ecosystem assets and services. NCA approaches highly depend on robust data systems that track changes in ecosystems over time, allowing policymakers to make informed decisions about natural resource management. National Statistical Offices (NSOs), in collaboration with environmental agencies, should take the lead in implementing this data-gathering process, ensuring that all key stakeholders are involved from the start.

Sri Lanka can benefit from developing ecosystem extent and condition accounts that focus on priority ecosystems such as coastal areas, forests, and wetlands, which are critical to the country's environmental and economic well-being. By focusing on specific ecosystem types that are most at risk from climate change, Sri Lanka can use ecosystem condition accounts to inform conservation and rehabilitation programmes, ultimately improving climate resilience and biodiversity conservation efforts. Integrating System of Environmental Economic Accounting Ecosystem Accounting (SEEA EA) indicators into existing naitonal government surveys would provide a cost-effective and systematic approach to data collection. Integration of these ecosystem-related indicators would facilitate the continuous and structured collection of ecosystem-related data, thereby ensuring consistency in environmental accounting and supporting informed policy and investment decisions.

Enhancing the quality and availability of environmental data will be a crucial element in strengthening NCA implementation. Improving data availability requires public awareness and engagement in data collection in addition to wide stakeholder involvement across the public, private, and academic sector. Community-based monitoring and citizen science initiatives can also play a significant role in improving data collection, ensuring public participation, and integrating insights from various stakeholders (including government institutions, the private sector, and academia). Mechanisms for standardizing and verifying collected data will also be necessary to maintain quality and ensure its reliability for use in decision-making processes.

In bridging data gaps, there should be private sector engagement in data infrastructure development. Private sector engagement, ensuring investment in data infrastructure, and utilizing private sector expertise and technology, can help to bridge data gaps by investing in infrastructure and expertise, enhancing the collection and management of environmental data. In addition, PPPs can play a role in enhancing the collection of this data through advanced spatial data technologies and analytical expertise.

Additional tools such as forecast modeling should be adopted for decision-making. Forecast modeling can be integrated into valuations and accounting as a tool for tracking ecosystem asset degradation and improvements over time, improving ecosystem management and policy planning. These predictive models can serve as key indicators for identifying high-risk areas vulnerable to environmental degradation, assessing the economic value of conservation efforts, and facilitating data-driven insights for policymakers.

Another key recommendation involves integrating ecosystem services flow accounts into Sri Lanka's economic planning processes. These accounts measure the physical and monetary benefits that ecosystems provide, such as carbon sequestration, flood regulation, and water purification. Sri Lanka should prioritize understanding these, to link ecosystem health with economic performance. For Sri Lanka, this could involve assessing how critical services like coastal protection from mangroves or carbon storage in forests contribute to reducing disaster risks and improving human well-being.

Lastly, Sri Lanka needs to develop monetary ecosystem asset accounts, which help quantify the financial value of ecosystem assets and track changes in their stocks. These accounts allow governments to evaluate the cost of ecosystem degradation and the benefits of restoration efforts in monetary terms. This integration is critical for justifying investments in ecosystem rehabilitation and climate adaptation programmes.

CASE STUDY – PHILIPPINE ECOSYSTEM AND NATURAL CAPITAL ACCOUNTING SYSTEM

The Philippines enacted the Philippine Ecosystem and Natural Capital Accounting System (PENCAS) Act in May 2024, institutionalizing NCA within national policy and decision-making processes.[45] This law mandates the use of environmental and economic accounting frameworks to recognize, protect, and promote the country's ecological balance and resilience. The Philippine Statistics Authority (PSA) is the designated overseer for implementation, ensuring that natural capital accounts are integrated into the government's planning and policy-making processes.[46]

Prior to the enactment of PENCAS, the Philippines developed a roadmap for the institutionalization of NCA.[47] This document outlined the development of NCA, calculation of adjusted macroeconomic indicators, and the application of these accounts in policymaking. It emphasizes the importance of capacity development, data management systems, and effective dissemination strategies to support NCA implementation. The NCA efforts are aligned with international standards, specifically the SEEA, in order to ensure the valuation and reporting of natural capital is consistent with globally accepted practices, facilitating comparability and credibility in environmental-economic analyses.[48]

The Department of Environment and Natural Resources (DENR) plays a central role in the creation and management of the NCA system. They collaborate with other government agencies to develop specific policies and programmes that integrate climate change adaptation into various economic, fiscal, social, political, and environmental decisions.[49]

Implementation has been enacted with consideration to localized approaches, with the initiation of projects to develop and pilot local government unit (LGU)-based NCA frameworks.[50] These efforts aim to create user-friendly tools, such as calculators, to assist LGUs in establishing natural capital accounts and enhance their ecosystem management capacity.

45 FAO (2024). Philippine Ecosystem and Natural Capital Accounting Systems (PENCAS) Act (Republic Act No. 11995). https://leap.unep.org/en/countries/ph/national-legislation/philippine-ecosystem-and-natural-capital-accounting-system-pencas

46 Office of the President of the Philippines (2024). PBBM signs law for accounting of PH natural resources. https://pco.gov.ph/news_releases/pbbm-signs-law-for-accounting-of-ph-natural-resources/

47 Republika NG Pilipinas, Philippine Statistics Authority, Department of Environment and Natural Resources (2024). Roadmap to Institutionalize Natural Capital Accounting in the Philippines. https://lpr.adb.org/sites/default/files/2024-07/philippines-natural-capital-accounting-roadmap.pdf

48 Southeast Asia Development Solutions (2024). Measure What You Treasure: Advancing Natural Capital Accounting in the Philippines. https://seads.adb.org/articles/measure-what-you-treasure-advancing-natural-capital-accounting-philippines

49 Department of Environment and Natural Resources (2022). DENR Undertakes Creation of Natural Capital Accounting System. https://denr.gov.ph/news-events/denr-undertakes-creation-of-natural-capital-accounting-system/

A key takeaway from the Philippines' experience is the establishment of a robust and supportive legal and policy framework through the PENCAS Act. Sri Lanka currently lacks a fully integrated legal structure to systematically incorporate SEEA EA elements into national planning. It is a best practice that the Philippines has enacted laws to institutionalize data collection and integrate green accounting mechanisms into national economic development planning. To institutionalise NCA, national dialogues should focus on regulatory measures that support valuation and green accounting, while strengthening regulatory initiatives and aligning NCA with national development goals through legal mandates.

LESSONS FOR SRI LANKA

Looking from the Philippine NCA implementation experience, the following are key lessons:

1. Establish a Legal Framework: Enacting legislation similar to the PENCAS Act can provide a strong foundation for integrating NCA into national policies.
2. Develop a Roadmap: Crafting a strategic plan to outline clear objectives, activities, and timelines will assist in systematic NCA implementation.
3. Align with International Standards: Adopting the SEEA EA can ensure consistency and enhance the credibility of NCA.
4. Strengthen Institutional Capacity: Building the capabilities of government agencies and LGUs is essential for effective data collection, analysis, and application of NCA.
5. Foster Inter-agency Collaboration: Coordinated efforts among various government bodies, as seen in the PSA and DENR are essential for the successful integration of NCA.

STEPS FOR IMPLEMENTATION

Strategic Direction	Description
1. Develop a National Framework for NCA Implementation	Establish a national framework for NCA that aligns with the SEEA EA standards. Identify key ecosystems (e.g. forests, wetlands, coastal zones) for initial assessments.
2. Create Baseline Natural Capital Inventories	Conduct a comprehensive inventory of natural assets, including their extent, condition, and economic value. Prioritize regions and ecosystems most critical to economic and environmental stability.
3. Capacity Building for Government Agencies	Train government officials and technical staff on NCA methodologies, data collection, and reporting standards. Collaborate with international organizations for technical assistance.
4. Integrate NCA into Policy and Decision-Making	Use NCA for informed policymaking, budget allocations, and investment decisions. Highlight the value of ecosystems in supporting economic growth and mitigating climate change.
5. Engage Stakeholders and Build Awareness	Strengthen relationships with key bilateral and multilateral donors. Organize donor roundtables to present project pipelines and explore funding opportunities.

6. Develop Sector-Specific Accounts	Focus on key sectors (e.g. agriculture, tourism, and fisheries) that rely heavily on natural capital. Provide actionable insights to improve resource management and sustainability.
7. Establish Monitoring and Reporting Systems	Create systems for ongoing data collection and reporting on natural capital trends. Publish regular updates to track progress and inform stakeholders.

ANTICIPATED RESULTS

- **Improved Decision-Making on Resource Management:** NCA integration would provide detailed data on ecosystem conditions, helping Sri Lanka's policymakers to make more informed choices about resource use and conservation. Tracking the value of services like water purification could guide investments in preserving key ecosystems.

- **Economic Valuation of Ecosystem Services:** Valuing ecosystems monetarily allows Sri Lanka to justify investments in conservation by quantifying benefits like carbon storage in forests or flood control in wetlands, aiding economic comparisons.

- **Enhanced Climate Change Mitigation:** By monitoring changes in natural capital, such as carbon-sequestering forests, Sri Lanka can prioritize conservation efforts that offer the highest climate benefits.

- **Increased Access to International Climate Finance:** NCA data strengthens Sri Lanka's case when seeking international climate finance, enabling the country to secure funding for biodiversity protection and NbS.

- **Monitoring Ecosystem Degradation and Restoration:** Through NCA, Sri Lanka can systematically track ecosystem degradation and restoration, ensuring efficient conservation efforts with measurable economic returns.

PROMOTION OF SUSTAINABLE TOURISM

OVERVIEW

Objective	Promote sustainable tourism practices that minimize environmental impact, preserve cultural heritage, and support local economies, ensuring long-term viability for Sri Lanka's tourism sector.
Product Description	Sustainable tourism, as defined by the Global Sustainable Tourism Council (GSTC), focuses on fostering responsible travel that minimizes environmental impact, preserves cultural heritage, and supports local economies. This approach emphasizes a balance between fulfilling the needs of tourists and protecting the resources and communities they visit. Key aspects include conserving biodiversity, reducing waste and carbon emissions, and promoting fair labour practices. Sustainable tourism aims to ensure that tourism contributes positively to both the environment and the well-being of host communities, ensuring long-term viability for future generations.[51]
Expected size	Targets the entire tourism sector, which is currently valued at over USD 3 billion, and includes SMEs, with potential to influence thousands of businesses, visitors, and local communities across the country's key tourist destinations.
Product proposal	Scale up the implementation of the Readiness for National Sustainable Tourism Certification (R-NSTC) framework, leveraging the groundwork laid by BIOFIN Sri Lanka and the Sri Lanka Tourism Development Authority (SLTDA). Strengthen capacity building for Community-Based Tourism (CBT) initiatives, ensuring alignment with global standards like the GSTC criteria.
Timeframe for development	Medium-term: 3–5 years to roll out certifications, provide capacity building for SMEs, and develop eco-friendly infrastructure. Longer-term impact (5–10 years) expected through widespread adoption and industry transformation.
Maturity of product	Moderate; sustainable tourism initiatives are already in progress with frameworks like R-NSTC in place, but further scaling and institutional support are needed for widespread impact and industry-wide adoption.
Potential partners	Multilateral official development partners, multilateral financial organizations, SLTDA, private sector tourism operators, local communities, and international tourism certification bodies.

50 GSTC (2025) What is Sustainable Tourism? - https://www.gstcouncil.org/what-is-sustainable-tourism/

SRI LANKA CONTEXT

According to the SLTDA 2024 Annual Report[52] Sri Lanka's tourism sector made a strong recovery, welcoming 2,053,465 visitors—a 38% increase from the previous year. Visitors from India, Russia, the UK, Germany, and China accounted for 52% of all arrivals. December was the busiest month, with 248,592 visitors. The tourism industry generated USD 3.16 billion in revenue, with tourists spending an average of USD 181.15 per day and staying for around 8.42 nights. The accommodation sector grew as well, with 4,519 registered establishments and 55,455 rooms, mostly in the Western and Southern provinces. Popular destinations like Sigiriya (museum and natural rock), Polonnaruwa (Alahana, Gal Viharaya, museum and kingdom), Yala National Park, and Udawalawa National Park saw heavy foot traffic, with foreign tourists contributing over 90% of the visitor income.

The SLTDA placed a strong emphasis on promoting sustainable tourism as a key part of the industry's long-term growth. The SLTDA has been actively encouraging businesses to adopt sustainable tourism certifications, pushing them to meet high standards in areas like waste reduction, water conservation, and energy efficiency. This approach ensures that the growth of tourism remains environmentally sustainable. Moreover, there has been significant investment in eco-friendly infrastructure, capitalizing on Sri Lanka's rich biodiversity while minimizing environmental impact. Initiatives such as eco-lodges, nature trails, and wildlife conservation projects have been developed to promote low-impact tourism, attracting travelers who prioritize sustainability and environmental preservation. The SLTDA has also focused on expanding CBT, involving local communities more directly in tourism-related activities. This model allows local people to benefit economically while maintaining control over their cultural and environmental resources. By sharing tourism benefits more equitably, this approach supports Sri Lanka's broader goals of sustainable development, ensuring that tourism growth helps local livelihoods while protecting the environment for future generations.

Additionally, as part of promoting sustainable tourism, Sri Lanka has launched the R-NSTC framework, developed by the SLTDA in partnership with Solidaridad Asia. This initiative aims to encourage eco-friendly practices in small and medium-sized tourism enterprises, ensuring they meet sustainability criteria across areas like water and waste management, biodiversity protection, and local community engagement. The framework serves as a key step toward positioning Sri Lanka as a leader in responsible travel. The R-NSTC allows tourism businesses to self-assess their adherence to sustainable practices, ensuring alignment with both national and global certification programmes. By focusing on sustainability, Sri Lanka is enhancing its tourism infrastructure while mitigating the environmental impact of increasing visitor numbers. This effort supports the long-term viability of the tourism sector while contributing to economic growth and environmental conservation.[53]

51 SLTDA (2024) Year In Review - https://www.sltda.gov.lk/storage/common_media/Year_In_Review_2024_ Final_2024_Jan-Dec1.pdf

52 Solidaridad (2024), Sustainable tourism in Sri Lanka gets a boost from responsible practices project - https://www.solidaridadnetwork.org/news/sustainable-tourism-in-sri-lanka-gets-a-boost-from-responsible-practices-project/

STEPS FOR IMPLEMENTATION

Strategic Direction	Description
1. Develop a Sustainable Tourism Policy Framework	Establish a national policy framework for sustainable tourism, focusing on eco-friendly practices, biodiversity conservation, and CBT. Ensure alignment with global sustainability standards (e.g. GSTC criteria).
2. Identify and Prioritize Key Tourism Sites	Conduct assessments to identify tourism hotspots with the potential for eco-tourism or sustainable development. Prioritize areas with high biodiversity, cultural significance, or underutilized potential.
3. Support Community-Based Tourism Initiatives	Empower local communities to manage and benefit from tourism projects. Provide training on sustainable tourism practices, business development, and cultural preservation.
4. Develop Certification Programmes	Introduce green certification schemes for hotels, tour operators, and tourism sites to encourage sustainable practices. Incentivize participation in such certification schemes.
5. Launch Awareness Campaigns	Educate tourists and businesses on the importance of sustainable tourism. Promote responsible travel behaviours, including waste reduction, respect for local cultures, and support for conservation.
6. Promote PPPs	Partner with private-sector entities to co-develop eco-tourism infrastructure, such as eco-lodges, renewable energy-powered resorts, and nature trails. Encourage private investment in sustainable tourism ventures.
7. Secure International Funding and Support	Engage with multilateral organizations to access technical assistance and funding for sustainable tourism initiatives. Highlight the economic and environmental benefits to attract donors.
8. Establish Monitoring and Reporting Systems	Develop a centralized platform to monitor the environmental and socio-economic impact of tourism projects. Use data to refine policies and share success stories to encourage replication.

ANTICIPATED RESULTS

- **Enhanced Environmental Preservation:** Prioritizing eco-friendly practices for the tourism sector to help protect Sri Lanka's rich biodiversity, reducing the negative impact on natural resources through improved waste management, water conservation, and energy efficiency.

- **Boosted Community Livelihoods:** With a focus on CBT, local communities will benefit directly from tourism revenue, ensuring more equitable distribution of economic gains and empowering locals to manage their cultural and environmental resources.

- **Strengthened Global Reputation:** Adopting internationally recognized sustainability standards for Sri Lanka to position itself as a leader in sustainable travel, attracting eco-conscious tourists and enhancing its standing in the global tourism market.

- **Long-Term Economic Growth:** Investments in sustainable infrastructure, such as eco-lodges and nature trails, will contribute to steady economic growth by catering to the rising demand for responsible and low-impact tourism experiences.

- **Increased Tourist Satisfaction:** Travelers seeking eco-friendly and culturally enriching experiences will find Sri Lanka more appealing, leading to higher visitor satisfaction and encouraging repeat tourism.

- **Reduced Carbon Footprint:** Promoting sustainable tourism practices helps Sri Lanka to mitigate the environmental impact of increasing tourist numbers, contributing to the country's broader climate goals, including carbon net zero by 2050.

ENTRANCE FEES

OVERVIEW

Objective	Implement a structured entrance fee system in PAs, including national parks, conservation forests, and cultural cities (excluding restricted areas) to generate sustainable revenue for biodiversity conservation and climate resilience projects while promoting eco-friendly tourism in Sri Lanka.
Product Description	Entrance fees within PAs, including national parks, conservation forests, and cultural cities (excluding restricted areas) are a widely used mechanism to generate revenue that can be reinvested into conservation efforts and maintaining these natural spaces. Entrance fees are structured to ensure that visitors who directly benefit from experiencing biodiversity, contribute financially to its preservation.[54] This practice aligns with the "user-pays" principle, where visitors contribute to the costs of conserving the resources they enjoy, providing a sustainable source of funding for PAs including national parks, conservation forests, and cultural cities (excluding restricted areas). Typically, entrance fees are charged upfront when tourists enter a PA, with the amount often varying based on factors such as the type of area, nationality of the visitor, and the activities they plan to undertake. For example, international visitors may pay higher fees than domestic tourists. In ecotourism destinations, these fees can be a significant revenue stream, especially in developing countries where government budgets for conservation are limited. The income generated helps cover the operational costs of maintaining PAs, including national parks, conservation forests, and cultural cities (excluding restricted areas), from biodiversity protection to infrastructure upgrades.
Expected size	Targets key natural and cultural heritage sites such as Sigiriya (museum and natural rock), Polonnaruwa (Alahana, Gal Viharaya, museum and kingdom), Yala National Park, and Udawalawa National Park, etc. to reinvest their receipts as entrance fees into conservation, climate resilience, and infrastructure. In 2024, USD 46 million in revenue was generated through ticket sales to foreigners who visited national parks, conservation forests, and cultural cities.
Product proposal	Use a differentiated entrance fee structure based on visitor citizenship to maximize revenue from international tourists, reinvesting the funds into conservation, climate resilience, and community development projects in PAs including national parks, conservation forests, and cultural cities (excluding restricted areas).
Timeframe for development	Short to medium-term: 1–3 years to implement the system and integrate transparent management processes. Long-term benefits (5–7 years) expected through enhanced climate resilience and increased revenue for conservation efforts.

53 GSTC (2025) What is Sustainable Tourism? - https://www.gstcouncil.org/what-is-sustainable-tourism/

Maturity of product	Moderate; entrance fees are already in place at many Sri Lankan PAs including national parks, conservation forests, and cultural cities (excluding restricted areas), but improved management, transparency, and reinvestment strategies are needed to maximize the system's effectiveness for climate and conservation goals.
Potential partners	Multilateral official development partners, multilateral financial organizations, SLTDA, local conservation agencies, park authorities, private tourism operators, local communities, and international conservation organizations.

The success of entrance fee programmes largely depends on transparent pricing structures and clear reinvestment of the funds into conservation efforts. It is vital that visitors can see the tangible impact of their contributions—whether it is through improved facilities, enhanced biodiversity protection, or support for local community initiatives. When the benefits of these fees are visible, it fosters greater appreciation and acceptance among tourists, promoting a sustainable tourism model that not only preserves the environment but also supports local economies. Therefore, entrance fees serve as a critical tool for balancing the need for conservation funding with the goal of promoting sustainable tourism. By ensuring that funds are reinvested in visible conservation efforts and community development, entrance fees can help PAs, including national parks, conservation forests, and cultural cities (excluding restricted areas), maintain their ecological integrity while benefiting from responsible tourism.

PA authorities would need to demonstrate progress on pre-defined KPIs, such as biodiversity protection, climate resilience projects or community engagement initiatives to qualify for continued fund reinvestment. This would require clear reporting structures and regular audits to track revenue generation, allocation, and expenditure impact, ensuring funds are used effectively to achieve conservation and climate goals. Furthermore, parks that meet or exceed their KPIs would receive additional financial support, incentivizing efficiency in management and impactful projects. This agreement would allow for periodic reviews and adjustments to the revenue-sharing mechanism based on changing priorities, ensuring continued alignment with national conservation and climate resilience strategies.

SRI LANKA CONTEXT

Entrance fees at Sri Lanka's key tourist attractions can become a critical source of revenue for climate finance, with funds directly supporting conservation, sustainability, and climate resilience projects. The country's natural and cultural heritage sites, such as Yala National Park, Sigiriya, and Horton Plains, can be protected through these fees, which provide essential funding to safeguard against climate change impacts and human activity.

Fees collected from parks and heritage sites contribute significantly to the overall tourism revenue. For instance, Yala National Park alone generated LKR 2.7 billion (~USD 9.1 million) from 353,646 foreign visitors, demonstrating the financial impact of a well-structured fee system.[54]

54 CBD (2001), Tourism User Fees - https://www.cbd.int/doc/nbsap/finance/Guide_Tourism_Nov2001.pdf

Fees collected from parks and heritage sites contribute significantly to the overall tourism revenue. For instance, Yala National Park alone generated LKR 2.7 billion (~USD 9.1 million) from 353,646 foreign visitors, demonstrating the financial impact of a well-structured fee system.[55] Aligned with the Convention on Biological Diversity (CBD) recommendations,[56] entrance fees follows the "user-pays" principle, ensuring that visitors who benefit from Sri Lanka's biodiversity contribute financially to its protection. This system helps cover operational costs of these PAs while also financing broader climate mitigation initiatives, such as reducing deforestation, protecting wildlife habitats, and promoting eco-friendly tourism that limits the carbon footprint of travel. These funds are vital in addressing the challenges of climate change, especially in areas that attract high numbers of tourists, where the pressure on ecosystems is greater.

The current fee structure in Sri Lanka for popular destinations reflects a differentiated pricing strategy, charging foreign visitors higher fees than locals. For example, the charge to visit the Sigiriya heritage site is around LKR 10,384 (~USD 35) for foreigners and LKR 120 (~USD 0.40) for locals, while Horton Plains charges around LKR 7,414 (USD 25) for foreigners and LKR 150 (~USD 0.51) for locals. This pricing model maximizes revenue from international tourists while keeping access affordable for local visitors. Such differential pricing is a highly effective strategy recommended by the CBD to ensure that international tourists, who often have more disposable income, contribute more significantly to the upkeep of the PAs including national parks, conservation forests, and cultural cities (excluding restricted areas). The additional revenue generated from these higher-paying foreign tourists allows Sri Lanka to invest more in climate resilience projects, particularly in regions most affected by environmental degradation due to tourism.

Moreover, a portion of the funds collected from entrance fees can be earmarked specifically for climate-related projects such as forest regeneration, marine protection, and the development of eco-friendly infrastructure. By ensuring that these fees are directed towards initiatives that mitigate climate risks and promote sustainability, Sri Lanka can create a more resilient tourism sector that not only preserves its rich natural heritage but also actively combats the effects of climate change. Implementation of entrance fees can be managed through PA authorities and the respective line agencies by entering into two- to five-year agreements with the MoF, stipulating the amount of revenue generated from entrance fees and defining a clear allocation mechanism requiring to funnel a portion of funds back into the PAs including national parks, conservation forests, and cultural cities (excluding restricted areas). The allocation would be performance-based, relying on KPIs to ensure accountability and effective resource usage.

Well-structured entrance fees at Sri Lanka's PAs including national parks, conservation forests, and cultural cities (excluding restricted areas) could provide a vital funding stream for conservation and climate finance efforts. Through transparent management and reinvestment into biodiversity conservation, eco-friendly infrastructure, and community development, Sri Lanka can leverage these fees to build a sustainable tourism model that supports both environmental protection and economic growth.

55 SLTDA (2023), Year In Review - https://www.sltda.gov.lk/storage/common_media/YearInReview2023Latest-2024-06-26.pdf
56 CBD (2001), Tourism User Fees - https://www.cbd.int/doc/nbsap/finance/Guide_Tourism_Nov2001.pdf

STEPS FOR IMPLEMENTATION

Strategic Direction	Description
1. Develop Fee Structures and Guidelines	Design a tiered fee structure for PAs including national parks, conservation forests, and cultural cities (excluding restricted areas) based on factors like visitor type (domestic versus international), seasonality, and type of activity. Ensure affordability for local communities while optimizing revenue from international visitors.
2. Establish Transparent Revenue Management Systems	Create a system to ensure revenues from entrance fees are allocated to conservation efforts, infrastructure improvements, and community development programmes. Publish annual reports to maintain transparency.
3. Pilot Entrance Fee Programmes in Select Areas	Test the entrance fee system in high-traffic PAs including national parks, conservation forests, and cultural cities (excluding restricted areas) to assess visitor behaviour, revenue generation, and operational challenges. Use pilot results to refine policies and scale up nationwide.
4. Provide Incentives for Sustainable Tourism Practices	Offer discounts or benefits to operators and visitors engaging in sustainable practices, such as reducing waste, supporting local businesses, or participating in conservation activities. Incentives should be linked to the NSTC Scheme from BIOFIN and the SLTDA and/or the GSTC.
5. Engage Stakeholders in Fee Design	Involve local communities, conservation organizations, and the tourism sector in the design and implementation of entrance fee programmes to ensure buy-in and equity.
6. Promote Digital Payment Systems	Introduce online and mobile payment platforms for entrance fees to improve convenience and reduce cash handling risks. Provide QR codes or applications for seamless payments at park entrances.
7. Raise Awareness About Fee Benefits	Implement campaigns to educate visitors on how entrance fees support conservation and local communities. Use signage and digital media to communicate success stories and impacts.
8. Monitor and Evaluate Revenue Impact	Establish systems to track revenue trends, visitor satisfaction, and conservation outcomes. Use data to refine fee structures and expand successful programmes.

ANTICIPATED RESULTS

- **Increased Conservation Funding:** Entrance fees will provide a reliable and sustainable source of revenue for maintaining biodiversity, improving infrastructure, and financing climate-related projects like forest regeneration and marine protection.

- **Enhanced Climate Resilience:** The reinvested funds will support climate mitigation efforts, including reducing deforestation and protecting ecosystems, helping Sri Lanka adapt to climate change impacts.

- **Boosted Eco-Friendly Tourism:** By investing in sustainable infrastructure, the tourism sector will reduce its environmental footprint, promoting low-impact travel and increasing Sri Lanka's appeal to eco-conscious travelers.

- **Economic Growth and Job Creation:** Sustainable tourism driven by entrance fee revenue will stimulate local economies, create green jobs, and support community-based conservation projects.

- **Transparency and Accountability:** A well-managed entrance fee system will ensure transparency, allowing stakeholders to see the direct impact of their contributions, fostering public and tourist support for conservation efforts.

- **Global Recognition as a Green Tourism Destination:** Effective use of entrance fees will strengthen Sri Lanka's reputation as a leader in sustainable tourism and climate resilience, attracting further international investment and eco-tourists.

GREEN REVOLVING FUND

OVERVIEW

Objective	Establish a self-sustaining GRF to finance energy efficiency, sustainability, and resource-saving projects in institutions such as universities, colleges, and non-profits in Sri Lanka.
Product Description	A GRF is an innovative financial tool designed to support sustainability and energy efficiency in institutions, particularly colleges, universities, and non-profits.[57] The key purpose of a GRF is to fund projects that reduce energy consumption, improve resource efficiency, and lower operational costs. This structure is unique as the savings generated from these projects are tracked and reinvested into the fund (a revolving cycle) for financial and environmental benefits. This self-sustaining approach helps institutions make continuous progress towards their sustainability goals while ensuring a long-term funding source for future projects.
Expected size	Initial fund size could range from several hundred thousand to a few million dollars, depending on the size of participating institutions and external funding sources like the GCF or GEF.
Product proposal	Create a GRF using initial capital from institutional budgets or external funding, with savings from projects reinvested to continuously fund new sustainability initiatives, reducing energy costs and carbon emissions.
Timeframe for development	Medium-term: 2–4 years to set up and operationalize the GRF, with potential for ongoing scaling as savings are reinvested and additional funding sources are secured.
Maturity of product	Early stage: while Sri Lanka is working on sustainability projects, a structured GRF with revolving funds has not yet been widely implemented, requiring initial capital, governance frameworks, and stakeholder engagement.
Potential partners	Multilateral official development partners, multilateral financial organizations, higher education institutions, local financial institutions, private sector companies, and sustainability experts.

57 Joe Indvik; Robert Foley; Mark Orlowski (2015), Green Revolving Funds: A Guide to Implementation & Management - https://greenbillion.org/wp-content/uploads/2015/07/GRF_Full_Implementation_Guide.pdf

The GRF operates by setting aside an initial pool of capital that finances a variety of sustainability initiatives, such as energy-efficient lighting, renewable energy installations, or water conservation systems. As these projects generate cost savings, these savings flow back into the fund. This mechanism keeps the fund liquid, allowing institutions to roll out more sustainability projects without relying on new or external funding. A typical GRF is structured with clear criteria for selecting and evaluating projects. These projects are assessed based on their potential to deliver cost savings, reduce carbon emissions, and contribute to the institution's overall sustainability objectives. To ensure transparency and accountability, institutions often use metrics to measure the return on investment (ROI) and the environmental impact of each project. This data helps showcase the financial and ecological benefits of the GRF, making it easier to maintain stakeholder support.

In addition to project funding, GRFs are typically supported by a governance framework. A committee or board, usually composing of members from various departments, such as finance, facilities management, and sustainability, oversees the operation of the fund. This group is responsible for reviewing project proposals, monitoring fund performance, and ensuring alignment with the institution's strategic goals. This structure suggests a shared responsibility across the institution and strengthens its commitment to sustainability.

Source: GRITS [58]

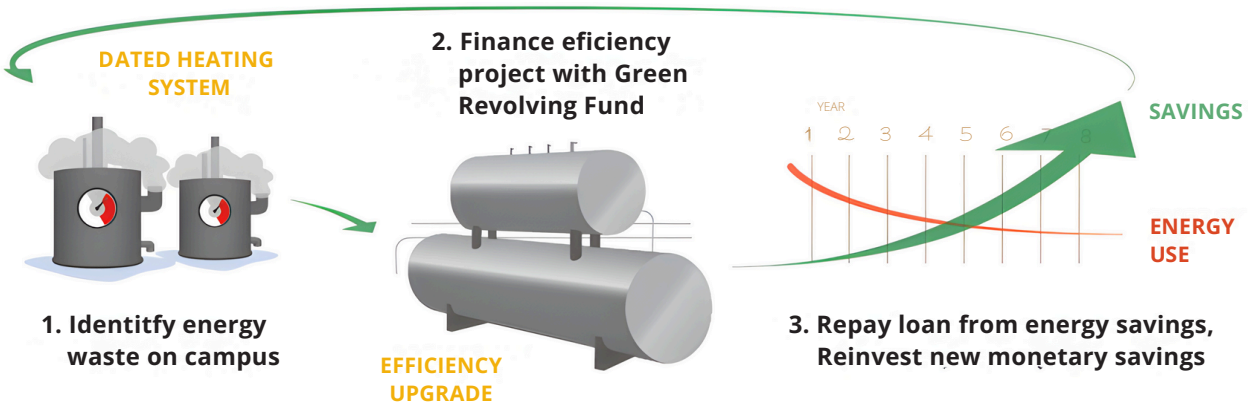


Figure 6 *How Green Revolving Funds Work*

SRI LANKA CONTEXT

Successfully setting up a GRF in Sri Lanka involves several key steps.[59] The steps ensure the fund is well-structured, aligned with the country's sustainability goals, and equipped to overcome local challenges

58 GRITS (2025. What is a Green Revolving Fund? - https://www.gogrits.org/docs/grits-guide-for-green-revolving-funds/what-is-a-green-revolving-fund/

59 Joe Indvik; Robert Foley; Mark Orlowski (2015), Green Revolving Funds: A Guide to Implementation & Management - https://greenbillion.org/wp-content/uploads/2015/07/GRF_Full_Implementation_Guide.pdf

STEP-BY-STEP GUIDE TO ESTABLISH AND MANAGE A GRF IN SRI LANKA

Here's a step-by-step guide to establish and manage a GRF in Sri Lanka, including potential challenges and recommended solutions:

- **Assessing Opportunities and Building a Business Case:** The first step is to assess the potential for energy-saving projects across institutions. This requires an audit of current energy use, inefficiencies, and areas where savings can be achieved. Identifying projects with strong energy-saving potential helps make a compelling case for the GRF. Highlighting the ROI and environmental benefits will secure stakeholder buy-in from government bodies, educational institutions, and businesses.

- **Securing Initial Capital:** Securing seed capital is crucial to launch the fund. Funds can come from institutional budgets, government grants, or external sources like development banks or climate finance initiatives. For Sri Lanka, tapping into international funds, such as the GCF, or local banks offering low-interest loans could provide a solid financial base. It is important to gather enough capital to keep the fund sustainable and capable of financing ongoing projects.

- **Creating a Governance Structure:** A well-defined governance framework is essential to oversee the GRF's operations. Sri Lanka should form a committee or board with representatives from key sectors—such as government ministries, finance, sustainability experts, and private partners. This group will evaluate projects, track performance, and ensure transparency and alignment with national sustainability goals.

- **Developing Criteria for Project Selection:** With the governance mechanism in place, the next step would be to define project selection, while ensuring alignment with national goals and international commitments. In Sri Lanka, priority could be given to projects that significantly reduce energy consumption, GHG emissions, and operational costs. Some project examples include renewable energy installations, building retrofits, and water conservation.

- **Measuring and Verifying Project Performance:** It is important to track the performance of each project to confirm energy and cost savings. Sri Lanka should implement systems to measure ROI and reductions in GHG emissions. Regular audits and third-party verification will help build confidence in the GRF's success and ensure that savings are reinvested into new projects.

- **Establishing Reinvestment Mechanisms:** The revolving nature of the GRF relies on reinvesting savings from successful projects back into the fund. In Sri Lanka, this could be done by channelling a portion of energy or operational cost savings back into the GRF. This cycle of reinvestment will ensure the fund remains financially sustainable, allowing for continuous project funding without additional external capital.

- **Addressing Common Challenges:** Common challenges in setting up a GRF include securing enough initial capital, ensuring stakeholder engagement, and tracking savings. Sri Lanka should invest in strong data collection systems to monitor project performance. Additionally, awareness campaigns and workshops can educate stakeholders on the GRF's financial and environmental benefits, easing concerns and gaining support.

- **Ensuring Long-Term Sustainability and Scaling:** To maintain the fund's long-term viability, Sri Lanka should regularly review the GRF's operations based on performance data. As the fund grows, it could expand to support larger national projects, like renewable energy initiatives or public infrastructure upgrades. Bringing in private sector partners or international donors increases capital, further boosting the GRF's impact.

STEPS FOR IMPLEMENTATION

Strategic Direction	Description
1. Design and Operationalize the GRF	Establish a dedicated fund structure with clear guidelines for project eligibility, repayment mechanisms, and reinvestment strategies. Focus on projects with measurable cost savings, such as energy efficiency upgrades and renewable energy installations.
2. Prioritize High-Impact Sectors	Target sectors with the highest potential for resource efficiency and cost savings, such as public buildings, transportation, and SMEs in manufacturing.
3. Launch Pilot Projects	Test the GRF model through pilot projects in key areas like energy-efficient retrofits for government buildings or solar installations in schools. Use these pilots to refine processes and demonstrate benefits.
4. Engage Financial Institutions	Partner with local banks and microfinance institutions to leverage co-financing for GRF projects. Develop risk-sharing mechanisms to encourage private sector participation.
5. Build Technical Capacity	Train local stakeholders, including fund managers, project implementers, and government officials, on GRF operations, monitoring, and financial management to ensure effective implementation.
6. Promote Awareness and Buy-In	Conduct targeted outreach to potential beneficiaries, showcasing successful examples of cost savings and environmental benefits. Highlight GRF's reinvestment mechanism to build confidence and participation.

7. Establish Transparent Monitoring Systems	Develop a robust monitoring framework to track project performance, cost savings, and environmental benefits. Publish annual reports detailing fund utilization and outcomes to enhance credibility.
8. Leverage International Support	Seek technical assistance and funding from international organizations, such as multilateral development partners and multilateral financial organizations, to build capacity and scale the fund. Highlight GRF's alignment with global climate and sustainability goals.

ANTICIPATED RESULTS

- **Sustainable Financing for Future Projects:** By creating a GRF, institutions can establish a self-sustaining cycle to fund projects like energy efficiency and sustainability. Savings from completed initiatives are reinvested, providing ongoing funding without the need for additional external capital.

- **Lower Energy Costs and Emissions:** GRFs help reduce energy consumption and operational costs by funding projects like lighting upgrades, renewable energy installations, and HVAC improvements. These initiatives directly cut down on GHG emissions while lowering operational expenses.

- **Increased Stakeholder Engagement:** A well-managed GRF promotes collaboration among government agencies, educational institutions, and businesses. It encourages broad participation in sustainability efforts and even supports entrepreneurial ideas from, for example, students, faculty, and staff by providing funding for innovative projects.

- **Enhanced Institutional Reputation:** Supporting ongoing sustainability initiatives through a GRF demonstrates an institution's commitment to environmental responsibility. This not only boosts GRF's reputation locally but also positions it as a leader in sustainability on a global scale.

- **Strong Financial Returns:** GRFs typically deliver impressive returns, with median annual returns of up to 28%. This outperforms many traditional investments and helps offset rising energy costs, making it an attractive option for institutions in Sri Lanka.

- **Educational and Research Opportunities:** A GRF offers hands-on learning and research opportunities. For example, by involving students and researchers in project development and implementation, it fosters skill development and advances knowledge in energy efficiency and sustainability.

ESG SWAPS (INCLUDING NATURE, ENERGY, WATER AND AGRICULTURE)

OVERVIEW

Objective	Utilize nature and ESG swaps as a pathway to achieve national sustainability goals by converting debt obligations into investments that foster environmental conservation, renewable energy, water resource management, and sustainable agricultural practices.
Product Description	ESG swaps represent an innovative approach to address both fiscal challenges and sustainable development needs, encompassing an array of thematic areas (i.e. nature, energy, water, and agriculture). These swaps involve a country committing to implement targeted projects that deliver measurable benefits in specific sectors, for example environmental conservation for nature swaps, renewable energy infrastructure development for energy swaps, or water treatment facilities development for water swaps. By leveraging ESG commitments through such swaps, Sri Lanka can reduce debt obligations while simultaneously advancing key sustainability and climate goals. These instruments have gained international traction due to their potential to redirect debt repayment priorities towards projects that deliver broad-based benefits across the ESG spectrum.
Expected size	Swaps of these kinds can vary in scale depending on the degree of debt relief that is negotiated, typically, these swaps target significant levels of debt reduction which could be redirected toward multi-million-dollar initiatives that address critical ESG priorities.
Product proposal	Implement comprehensive ESG swap agreements to exchange debt obligation for measurable ESG outcomes, encompassing: • Debt-for-Nature Swaps: Targeting biodiversity conservation, reforestation, and establishment of PAs. • Debt-for-Energy Swaps: Supporting a clean energy transition, including solar, wind, and other renewable projects. • Debt-for-Water and Agriculture Swaps: Focusing on efficient water management, sustainable agriculture reforms, and irrigation solutions, ensuring food security and resource sustainability.
Timeframe for development	Short to medium-term implementation is attainable, typically within a timeframe of 3-7 years for agreements, project planning, and on-ground execution, with long-term monitoring extending beyond 10 years. The negotiation period is generally a highly time-intensive activity, and this may add years to the timeframe.[60]

60 Soutar, R., Koop, F. (2021). Explainer: What are debt-for-nature swaps? https://dialogue.earth/en/nature/47862-explainer-what-is-debt-for-nature-swap/

Maturity of product	ESG swaps have been successfully implemented globally, but their application can be tailored to address Sri Lanka's specific sustainability and economic needs.
Potential partners	Multilateral financial organizations, international financial institutions, international donors, conservation and development organizations, NGOs, and private-sector stakeholders.

SRI LANKA CONTEXT

For Sri Lanka, ESG swaps offer a strategic pathway to redirect debt servicing obligations to initiatives that presently receive limited investment such as environmental preservation, climate resilience, and socio-economic development. Given Sri Lanka's rich and diverse ecosystems, including rainforests, wetlands, and mangroves, biodiversity and nature conservation are likely to emerge as key focus areas within ESG swap frameworks. Debt-for-nature-swaps can channel funds into protecting these ecosystems, promoting conservation, enhancing eco-tourism, and mitigating climate risks. Such initiatives align with Sri Lanka's commitments under the CBD[61] and benefit local communities dependent on natural resources for their livelihoods.

The renewable energy transition is another additional critical area in which swaps could be applied. While petroleum (32.2%) is no longer the leading energy source, there is still potential to utilise debt-for-energy swaps to mobilize investments for domestic renewable energy projects. This transition will further reduce reliance on imported fuels, stabilize energy costs, and strengthen energy security while contributing to climate goals at the same time.

Sustainable water management and agriculture provide significant ESG swap opportunities. Agriculture plays a vital role in Sri Lanka, providing employment and contributing to economic growth. At the same time, water for both general use and within the water-food-energy nexus represents an area of opportunity. However, the agricultural sector faces challenges from water scarcity to soil degradation, and climate change threats.[62] Debt-for-water and agriculture swaps offer a strategic solution to address these challenges by supporting initiatives such as efficient irrigation systems, sustainable farming practices, and soil conservation projects. These interventions can improve food security and strengthen climate change resilience.

Global examples of successful ESG swaps include debt-for-nature agreements in countries like Belize, Seychelles, and Ecuador.[63] These examples demonstrate the potential for both meaningful and economic gains through this financial solution. While each agreement was uniquely tailored, they share common traits that can be translated to the context of Sri Lanka. Targeted investments in biodiversity, renewable energy, and marine conservation were conditional requirements within the agreements, with Sri Lanka's natural resources and potential for renewable energy, the country is well positioned to adapt and build upon these models.

61 CBD (n.d.). Sri Lanka – Country Profile. https://www.cbd.int/countries/profile?country=lk
62 UNCCD (2017). Final Country Report of the Land Degradation Neutrality Target Setting Programme in Sri Lanka. https://www.unccd.int/sites/default/files/ldn_targets/Sri%20Lanka%20LDN%20TSP%20Country%20Report.pdf
63 Owen, N. (2022). Belize: Swapping Debt for Nature. https://www.imf.org/en/News/Articles/2022/05/03/CF-Belize-swapping-debt-for-nature

Leveraging the NDCs, national biodiversity and land degradation neutrality targets and other sustainability framework commitment targets, such as the Climate Prosperity Plan, ESG swaps provide an avenue through which opportunity costs of debt repayments can be highlighted, encouraging international support from creditors and development partners. However, several challenges must be addressed to maximise ESG swap effectiveness in Sri Lanka. Effective governance structures, robust monitoring, reporting and verification (MRV) systems, and transparent stakeholder engagement processes are imperative for its success.

STEPS FOR IMPLEMENTATION

Strategic Direction	Description
1. Develop a National ESG Swap Strategy	Create a comprehensive strategy to prioritize key sectors (e.g., biodiversity conservation, renewable energy, water management, and sustainable agriculture) for ESG swap agreements. Ensure alignment with national climate goals and debt management policies.
2. Identify High-Value Swap Opportunities	Conduct assessments to identify ecosystems, energy projects, agricultural reforms, et cetera that could deliver high ESG impacts. Focus on areas with the greatest need and potential for measurable outcomes.
3. Engage International Creditors and Partners	Collaborate with bilateral creditors, multilateral development banks, and conservation organizations to negotiate ESG swap agreements. Highlight Sri Lanka's commitment to sustainability to secure favourable terms.
4. Design Measurable Outcomes and MRV Systems	Establish robust MRV systems to track the progress and impact of ESG swap projects. Use internationally recognized methodologies to ensure transparency and accountability.
5. Leverage Blended Finance Mechanisms	Combine ESG swap agreements with additional financing sources, such as grants or private sector investments, to maximize the scale and impact of targeted projects.
6. Foster Stakeholder Engagement	Include local communities, private sector actors, and civil society organizations in planning and implementing ESG swap projects. Ensure equitable distribution of benefits and long-term sustainability.
7. Pilot Swap Agreements in Priority Sectors	Initiate pilot ESG swaps in key areas such as debt-for-nature swaps for forest conservation or debt-for-energy swaps for solar power installations. Use pilot results to refine frameworks for future agreements.
8. Facilitate Funding and International Partnerships	Collaborate with development banks, international donors, and global climate funds to co-finance and provide technical assistance.

ANTICIPATED RESULTS

- **Enhanced Environmental Protection: I**ncreased investments in conservation, renewable energy, and sustainable agriculture contribute to protecting biodiversity, reducing GHG emissions, and building climate resilience.

- **Debt Relief and Fiscal Space:** ESG swaps provide significant debt relief, creating fiscal space for other areas essentially requiring public investment.

- **Improved Livelihoods and Community Resilience:** Investments in sustainable agriculture, water management, and renewable energy enhance livelihoods and strengthen food and water security by reinforcing key elements of the water-food-energy nexus. These efforts also build resilience among local communities in the face of climate change.

- **Alignment with National and Global Goals:** ESG swaps help Sri Lanka meet its commitments under the Paris Agreement, NDC, and other sustainability conventions and frameworks, contributing to both national development and global climate goals.

- **Long-Term Economic Growth:** By redirecting debt obligations into projects that generate long-term environmental and social benefits, ESG swaps drive economic growth, job creation, and sustainable development across multiple sectors.

CARBON MARKETS

OVERVIEW

Objective	To leverage carbon markets as a tool to reduce GHG emissions and attract investments in low-carbon and climate-resilient technologies, in alignment with Sri Lanka's NDCs, SDGs, long-term climate strategies, and international commitments under the Paris Agreement.
Product Description	Carbon markets enable trading verified emission reductions (carbon credits) to incentivize investment in low-carbon and climate-resilient technologies.[64] Compliance markets, under Article 6 of the Paris Agreement, are regulated and allow countries to meet their NDCs, while voluntary markets operate outside regulation, enabling companies and individuals to offset emissions for corporate or personal climate goals. To ensure integrity, markets must apply safeguards, principles of additionality and permanence, and avoid double counting, supported by robust MRV systems. A clear regulatory framework and institutional readiness are essential for credibility and international alignment, while risks such as market volatility and limited project pipelines must be proactively managed.
Expected size	The level of participation, project types, and market maturity can significantly vary the scale of carbon markets' expected revenue mobilization. The development of Sri Lanka's carbon market is anticipated to mobilize large scale investments across sectors such as energy, forestry, agriculture, and in industrial processes.
Product proposal	Develop a comprehensive carbon market framework enabling the generation, trading, and sale of carbon credits through: • **Emissions Reduction Projects:** Initiatives that are focused on reducing emissions from key sectors (i.e. renewable energy installations, and energy efficiency upgrades). • **NbS:** Projects like afforestation, reforestation, and wetland restoration that improve carbon sequestration. • MRV Systems: Mechanisms to ensure accuracy, transparency, and accountability of emissions reductions, aligned with global standards. • **Carbon Credit Trading Platforms:** A national platform for trading carbon credits domestically and connecting with international markets. • **Credit Registry and Tracking System:** A centralized carbon credit registry to maintain transparency, prevent double counting and track transaction records.

64 European Commission (n.d.) International Carbon Market. https://climate.ec.europa.eu/eu-action/eu-emissions-trading-system-eu-ets/international-carbon-market_en

	• **Capacity Building and Awareness:** Training and outreach to project developers, regulators, and verifiers to build local technical capacity and market readiness. • **Regulatory and Legal Framework:** Clear regulations and institutional mandates governing market participation, including who can generate, verify, and trade credits. • **Institutional Arrangements:** Clarified roles of government agencies, project developers, verifiers, registries, and oversight bodies to ensure transparency and accountability.
Timeframe for development	A short development timeframe is expected due to the initial usage of voluntary carbon markets within Sri Lanka and emerging technologies that provide avenues for international integration.
Maturity of product	International carbon markets have been operational for decades and Sri Lanka has introduced carbon credit trading under the Sri Lanka Carbon Crediting Scheme (SLCCS).[65] The creation of a national carbon credit exchange platform can further Sri Lanka emerging as a potential regional leader in carbon trading.
Potential partners	Sri Lanka Climate Fund, international organizations, voluntary market platforms, private sector companies, NGOs, and financial institutions.

SRI LANKA CONTEXT

Sri Lanka holds substantial potential to benefit from carbon markets due to its commitment to achieving carbon net zero by 2050 and its need to transition key sectors, such as energy, agriculture, forestry, and industry, toward low-carbon pathways. The country's reliance on fossil fuels presents both challenges and opportunities for initiatives addressing emissions reductions. By investing in clean energy projects, Sri Lanka can generate carbon credits, providing economic incentives for reducing emissions and accelerating its transition towards a sustainable future.

Sri Lanka's natural carbon sinks (e.g. forests, mangroves, seagrass and wetlands) offer a significant carbon sequestration advantage. Restoration and conservation of these ecosystems align with carbon market goals and contribute to both emission reduction and biodiversity protection. Some examples of high-impact projects for credit generation include reforestation, mangrove restoration, and energy efficiency improvements across industrial and commercial sectors.

The SLCCS highlights the early development of the domestic market and signals national interest in engaging more broadly across the region. The Government of Sri Lanka has approved the six sectors - electricity, transport, industry, waste, forestry, agriculture and livestock - as eligible to generate carbon credits under Article 6 of the Paris Agreement.[66]

65 Sri Lanka Climate Fund (2021). Sri Lanka Carbon Crediting Scheme. https://www.climatefund.lk/slccs.html

66 Ministry of Environment (2024). Implementation of the Article 6 of the Paris Agreement in Sri Lanka: The list of positive project areas for implementation of Article 6 of the Paris Agreement in Sri Lanka. https://env.gov.lk/web/index.php/en/publications/other-publication

There are additional sector-specific opportunities outlined under these sectors including related to improving processes, efficiency and management, all contributing to verified carbon credits for market trade. These projects align with the sectors covered under Sri Lanka's climate commitments outlined in its NDCs, which emphasize emission reduction, renewable energy expansion, and sustainable development. Carbon markets offer a mechanism for Sri Lanka to attract international investment and foster partnerships.

To support integration with global carbon markets, Sri Lanka plans to align its domestic carbon crediting mechanisms with international standards and ensure compatibility with Article 6 of the Paris Agreement. This includes the development of corresponding adjustment protocols, standardized methodologies, and engagement with international registries and buyers to ensure credits generated within Sri Lanka are eligible for international transfer. Sri Lanka is also in the process of digitizing its national carbon registry.

To ensure long-term success, Sri Lanka must adopt a robust performance-tracking framework to monitor progress against NDC targets, assess the effectiveness of credit-generating activities, and guide adaptive policy and regulatory responses. This will also require further strengthening regulatory and institutional capacity, developing robust MRV systems, and improving alignment with global standards to enhance market credibility.

Sri Lanka requires a clear roadmap for scaling from pilot to full implementation, with suggestions for sector-specific projects such as energy efficiency and reforestation. While overall the country's experience with carbon credit generation and trading remains in nascent stages, this necessitates capacity building initiatives and deeper market integration to maximize impact and success. Efforts are already underway aiming to enhance stakeholder understanding of international carbon trading.[67]

STEPS FOR IMPLEMENTATION

Strategic Direction	Description
1. Develop a Comprehensive Carbon Market Framework	Establish clear rules and guidelines for carbon credit generation, verification, and trading. Align the framework with international carbon market standards (e.g. Article 6 of the Paris Agreement) to facilitate integration with global markets.
2. Expand Eligible Sectors for Carbon Credit Projects	Prioritize key sectors such as renewable energy, forestry, agriculture, and industrial efficiency for carbon credit generation. Develop criteria to ensure projects align with national climate targets.
3. Build Robust MRV Mechanisms	Implement transparent MRV mechanisms to ensure the credibility of emissions reductions. Use advanced technologies like satellite monitoring and blockchain for data accuracy and security.

67 GGGI (2024). GGGI and Sri Lanka's Ministry of Finance partner to Strengthen Carbon Trading Expertise. https://gggi.org/gggi-and-sri-lankas-ministry-of-finance-partner-to-strengthen-carbon-trading-expertise/

4. Establish a National Trading Platform	Develop a national carbon credit exchange platform to facilitate trading among local industries and encourage participation in international carbon markets.
5. Pilot Carbon Offset Projects	Launch pilot projects, such as afforestation, renewable energy installations, or industrial efficiency improvements, to demonstrate the potential of carbon credits in generating revenue and reducing emissions.
6. Raise Stakeholder Awareness	Conduct workshops and outreach programmes to educate industries, investors, and local communities about the benefits of carbon markets and participation processes. Highlight the revenue generation potential for smallholder farmers and SMEs.
7. Leverage International Partnerships	Collaborate with multilateral organizations like the GCF, World Bank, and UNFCCC to secure funding and technical assistance. Build partnerships with regional markets to enhance cross-border trading opportunities.
8. Promote Public-Private Collaboration	Partner with private sector actors to finance and implement carbon market projects. Encourage corporate buyers to invest in high-quality carbon credits for sustainability goals.

ANTICIPATED RESULTS

- **Reduced Carbon Emissions:** Carbon markets incentivize the adoption of low-carbon technologies and practices, leading to significant reductions in GHG emissions across various sectors.
- **Increased Climate Finance:** Revenue generated from the sale of carbon credits will be reinvested in climate mitigation and adaptation projects, enhancing resilience and fostering sustainable development.
- **Economic Growth and Job Creation:** Investments in emission reduction and carbon sequestration projects stimulate economic activity, create new green jobs, and improve the competitiveness of Sri Lanka's economy.
- **Enhanced International Standing:** Participation and integration with international carbon markets position Sri Lanka as a credible and proactive leader in global climate action, attracting foreign investment and forging stronger international partnerships. Technological advancements coming out of the country in the carbon trading sector further enhances this aspect.
- **Improved Natural Resource Management:** Investments in NbS, such as afforestation and reforestation, strengthen the conservation of Sri Lanka’s ecosystems, improve biodiversity, and provide co-benefits for local communities.
- **Alignment with National Climate Goals:** The carbon market initiative plays a pivotal role in achieving Sri Lanka’s climate targets, while contributing to the broader objectives of sustainable economic and social development.

DE-RISKING OF CLIMATE RELATED FINANCE

OVERVIEW OF DE-RISKING MECHANISMS

De-risking mechanisms play a critical role in incentivizing investments in sectors often perceived as high-risk, particularly in developing countries facing rising debt burdens and industries linked to sustainability and infrastructure development. These mechanisms are designed to mitigate or manage risks that can deter private sector participation, ensuring that essential projects receive the necessary financial backing to move forward. By offering various forms of financial protection, they reduce the exposure of investors to potential losses, thereby, making investments more attractive and viable.[68] De-risking private investments in climate adaptation and L&D finance, which remain underrepresented in the climate financing landscape, is essential to mobilize the substantial capital required to address climate change impacts, particularly in vulnerable regions. The private sector's contribution to adaptation finance remains minimal; for instance, just over 2% of the average annual USD 63 billion in global adaptation finance came from private sources in 2024.[69]

The primary challenge lies in the high perceived risks associated with climate adaptation projects, which often deters private investors. These projects typically involve long payback periods, uncertain returns, and significant upfront costs. To mitigate these risks and attract private capital, blended finance mechanisms are employed, combining public and private funds to improve the risk-return profile of investments. Instruments such as guarantees, first-loss capital, and insurance facilities are pivotal in this context. For example, guarantees have leveraged 26% of all mobilized private finance between 2018 and 2020, demonstrating their effectiveness in attracting private investment.[70]

Governments and public entities, play a crucial role in creating an enabling environment for private investment by implementing supportive policies and establishing clear regulations that encourage private sector participation. Additionally, public funding can be strategically used to finance feasibility studies, provide technical assistance, and build capacity, thereby reducing the perceived risks of investing in novel or unfamiliar markets. MDBs are instrumental in this process, as they can deploy innovative financial de-risking instruments and structures to catalyse private finance for climate investments.[71]

Fostering partnerships between the public and private sectors is essential. PPPs can align expertise, resources, and incentives of both sectors to deliver climate-resilient projects. By sharing risks and rewards, these partnerships can create bankable projects that meet the dual objectives of profitability and climate resilience.

68 David Matthäus, Michael Mehling (2020), De-risking Renewable Energy Investments in Developing Countries: A Multilateral Guarantee Mechanism, Joule, Volume 4, Issue 12 https://www.sciencedirect.com/science/article/pii/S2542435120305006

69 CPI (2024). Tracking and Mobilizing Private Sector Climate Adaptation Finance. https://www.climatepolicyinitiative.org/publication/tracking-and-mobilizing-private-sector-climate-adaptation-finance/

70 CPI (2024). De-Risking Private Investment Guarantees. https://compass.climatepolicyinitiative.org/themes/concessional-finance/de-risking-private-investment-guarantees

71 WRI (2023). Mobilizing Private Investment in Climate Solutions: De-risking Strategies of Multilateral Development Banks. https://www.wri.org/research/mobilizing-private-investment-climate-solutions-mdbs

Transparency and data availability are equally critical in de-risking investments. High-quality climate data, risk assessments, and standardized metrics enable investors to better understand and price climate risks, thereby enhancing confidence and trust, both of which are fundamental to mobilizing private capital.

De-risking mechanisms are organized into two broad categories: internal capital enhancement measures (or capital structure adjustments) and external risk transfer measures (or risk transfer instruments). The first category focuses on structuring investments in ways that prioritize risk absorption and loss distribution, thus protecting investors from early or unforeseen setbacks. Mechanisms such as the waterfall structure and first loss provisions work by layering investments in tiers or creating buffers to absorb potential losses, allowing higher-tier investors to be shielded from risk. These tools enhance the security of investments by ensuring that risks are distributed across multiple layers of capital, providing confidence to investors and financiers.

The second category includes instruments designed to directly transfer or cover risks, further safeguarding investors from financial harm. These instruments include letters of credit (2a), cash collateral accounts (2b), surety bonds (2c), guarantees (2d), insurance products (2e), and credit derivatives (2f). Each of these mechanisms function by either providing financial backing, absorbing losses, or compensating for specific risk events. For instance, guarantees and insurance products offer assurances that, in the case of defaults or other adverse events, investors will be compensated. Credit derivatives, on the other hand, provide tools for managing credit exposure, enabling investors to hedge against specific risks.

The following section provides an overview of the de-risking mechanisms, explaining their key components, advantages and disadvantages in reducing investment risks. By exploring both capital structure tools and risk transfer instruments, it highlights how these mechanisms can be effectively used to unlock financing for critical projects, especially in markets or sectors where uncertainty is a major barrier to investment.

OVERVIEW OF DE-RISKING MECHANISMS

INTRODUCTION

In its pursuit of climate risk reduction, sustainable development and economic growth, Sri Lanka faces significant challenges in mobilizing private sector investments, particularly in sectors related to renewable energy, infrastructure, and climate resilience. A key obstacle is the high level of risk perceived by investors, often stemming from political, economic, and environmental uncertainties. De-risking mechanisms play a pivotal role in enhancing the attractiveness of these investment opportunities.[72,73]

72 UNDP (2023), Driving sustainable Investment: The Crucial role of Sustainable Finance and Private Capital for Sri Lanka - https://www.undp.org/srilanka/press-releases/driving-sustainable-investment-crucial-role-sustainable-finance-and-private-capital-sri-lanka

73 OECD (2021), De-risking institutional investment in green infrastructure - https://www.oecd.org/en/publications/de-risking-institutional-investment-in-green-infrastructure_357c027e-en.html

This chapter explores the de-risking mechanisms available to Sri Lanka in the context of climate change and sustainable development, with a primary focus on external mechanisms. The specific de-risking instruments offered by MDBs are examined, assessing their effectiveness, and exploring how they can be tailored to address the challenges faced by Sri Lanka, ultimately contributing to a more resilient and sustainable economic future.[74,75] Through their de-risking instruments, MDBs encourage greater private sector participation in climate finance, unlocking larger capital flows for climate mitigation, adaptation, and L&D prevention. For instance, partial risk guarantees can cover risks related to regulatory changes or political instability, while concessional financing can provide below-market-rate loans to enhance the financial viability of climate-related investments. By lowering the cost of capital and reducing perceived risks, MDBs play a critical role in enabling climate-related projects in emerging markets like Sri Lanka.

DE-RISKING MECHANISMS

Guarantee Mechanisms: Guarantees serve as risk-mitigation tools covering non-commercial risks, such as expropriation, currency inconvertibility, or breach of contract, which deter foreign investors from participating in Sri Lanka's climate finance projects. Aligned with MDBs' broader strategy to engage private sector stakeholders in developing climate-resilient infrastructure, these guarantees can play a crucial role in attracting foreign capital, particularly for large-scale PPPs and independent power producer (IPP) projects. They can help secure financing for critical initiatives that strengthen Sri Lanka's transmission and distribution grids, addressing one of the key bottlenecks in scaling up renewable energy.

Trade Finance: Trade finance is a crucial de-risking tool for enabling smooth international trade flows and bolstering economic resilience. Given Sri Lanka's significant reliance on imports and exports, facilitating trade finance helps secure liquidity and credit access for businesses. This financial tool becomes particularly important in times of global or local economic uncertainty, when credit availability is restricted due to heightened risk perceptions. Through trade finance, Sri Lanka can stabilize its trade sector, promoting economic recovery and resilience.[76]

Risk-Sharing and Short-Term Liquidity Facilities: These instruments are particularly useful in addressing liquidity shortages faced by businesses during economic downturns, natural disasters, or market shocks. For instance, in times of crisis, such facilities can provide the necessary funding to ensure continued operation of climate finance-related initiatives, preventing project disruptions that might otherwise occur due to financial instability.[77]

Countercyclical Approaches: These mechanisms offer support during economic downturns by helping financial institutions manage non-performing loans and distressed assets. For Sri Lanka, this is a critical intervention to ensure that financial institutions remain solvent and capable of supporting investments in sustainable infrastructure. Through these countercyclical measures, MDBs help stabilize financial markets and mitigate broader economic risks.[78]

---

74 The World Bank, (2022), Creating Markets in Sri Lanka - https://www.ifc.org/content/dam/ifc/doc/mgrt/sri-lanka-cpsd-full-report-final.pdf

75 UNESCAP (2023), Accelerating Sustainable Finance Through Private Sector Participation - https://www.unescap.org/sites/default/d8files/event-documents/Session1_Intro_Sus_Fin_ESCAP.pdf

76 IFC (2023), Boost to Sri Lankan Economy with IFC Providing Financing of up to $400 Million to Banks to Ensure Essential Imports - https://www.ifc.org/en/pressroom/2023/boost-to-sri-lankan-economy-with-ifc-providing-financing-of-up-to-400-million-to-banks-to-ensure-essential-imports

77 World Bank Group (2025) World Bank Group Guarantees deliver efficiency and boost impact -

78 IFC (2019), DARP—Creating Distressed Assets Markets - https://ppp.worldbank.org/public-private-partnership/sites/ppp.worldbank.org/files/2022-03/201910-Distressed-Assets-Recovery-Program.pdf

Mitigating Foreign Currency Risk: Mitigating foreign currency risk is a considerable challenge for Sri Lankan companies, particularly those operating in sectors exposed to foreign exchange volatility. Currency risk can significantly increase the cost of borrowing and deter private investment. To address this, MDBs issue offshore local currency-linked bonds, allowing for non-sovereign local currency lending, thereby reducing the exposure of Sri Lankan companies to currency fluctuations. This measure not only enhances financial stability for local businesses but also encourages more predictable long-term investments, which are critical for climate-related infrastructure projects. This reduces one of the most prominent barriers to private sector investment in climate finance, providing companies with the confidence needed to invest in sustainable, long-term projects.[79]

Increasing Financial Inclusion: Increasing financial inclusion expands Sri Lanka's financial landscape across banking, non-banking financial institutions, insurance, securities, and green and sustainable finance. As a result, SMEs, which are often the most vulnerable to financial risks, including limited access to capital, benefit from reduced risk for lenders and easier access to credit.[80] Moreover, promoting financial technology and digitalization, enhances the efficiency and reach of financial services, extending credit access to underserved populations to foster broader participation in the climate finance ecosystem.[81] Gender-responsive de-risking is also crucial in the context of climate finance, as women in developing countries like Sri Lanka are often disproportionately affected by the impacts of climate change impact.[82]

79 ADB (2015), Local Currency Bonds and Infrastructure Finance in ASEAN+3 - https://www.adb.org/publications/local-currency-bonds-and-infrastructure-finance-asean3

80 For example, the Asian Development Bank has created the Microfinance and Credit Regulatory Authority in support of extending financing available for SMEs.

81 ADB (2024), ADB Approves $100 Million Loan to Support SMEs in Sri Lanka - https://www.adb.org/news/adb-approves-100-million-loan-support-smes-sri-lanka

82 ADB (2025). Credit Guarantees for Women's Small Businesses - https://www.adb.org/multimedia/partnership-report2023/our-stories/credit-guarantees-for-womens-small-businesses/

RECOMMENDATIONS FOR ENABLING ENVIRONMENT

LEVERS FROM POLITICAL, REGULATION AND FINANCIAL INFRASTRUCTURE POINT OF VIEW

POLITICAL LEVERS

Existing Levers	Levers Needed
Sri Lanka has demonstrated a strong commitment to climate action, aligning itself with international frameworks such as the Paris Agreement and actively participating in global initiatives like the UNFCCC. The country has updated its NDCs to focus on reducing GHG emissions and enhancing resilience to climate impacts. In line with its climate policies, Sri Lanka has developed national policies and strategies like the National Climate Change Policy, NDC Implementation Plan and the National Adaptation Plan, which guide its efforts to integrate climate considerations into development planning. The country is especially focused on leveraging its solar, wind, and biomass resources to transition away from fossil fuels, as evidenced by plans to generate most of its electricity from renewable sources. In addition, Sri Lanka has been proactively negotiating international trade agreements with neighbouring Asian states. This indicates the country's ambition to accommodate diverse, economic, and secure supply chains for national industries, necessary to ensure equipment and capital flows for a green transition. Aside from the established agreements,[83] efforts are underway for trade agreements with more agreements within the region for a cooperative economic-technological agreement coupled with investment provisions.[84] As an agriculture-rooted economy, decreased trade barriers will reduce equipment, energy import, and construction material costs, crucial for green project finance opportunities.[85]	To strengthen the enabling political environment, Sri Lanka needs to deepen cross-sectoral integration of climate goals. Climate considerations should be embedded not only in environmental policies but also across the broader economic development agenda, particularly in areas such as agriculture, energy, transport, and urban planning. Establishing a High-Level Climate Finance Task Force at the ministerial level could help coordinate climate finance initiatives across ministries, ensuring alignment between climate goals and financial strategies. Furthermore, promoting political continuity around climate policies by enshrining key climate goals in legislation rather than depending on political goodwill would provide long-term stability to investors.

83 Countries Sri Lanka has established agreements with include the EU[83], India[83], Pakistan[83], South Asian Association for Regional Cooperation (SAARC)[83], Singapore[83], and Thailand[83].

84 Economynext (2024), Sri Lanka and India negotiating on bilateral investment treaty: report - https://economynext.com/sri-lanka-and-india-negotiating-on-bilateral-investment-treaty-report-152175/

85 IEA (2022), Energy system of Sri Lanka - https://www.iea.org/countries/sri-lanka

Aside from the Paris Agreement, Sri Lanka is also party to other key international environmental treaties such as the Montreal Protocol (1987)[86] and its amendments, and the Minamata Convention on Mercury (2013).[87] It has also signed and ratified the UN Convention against Corruption (2003),[88] the UN Convention against Transnational Organized Crime (2000),[89] and the OECD-ADB Anti-Corruption Initiative for Asia and the Pacific (1999),[90] ensuring transparency and accountability in governance, and facilitating access to additional sources of climate funding.[91]

REGULATORY LEVERS

Existing Levers	Levers Needed
Sri Lanka has implemented significant regulatory measures to support climate finance, particularly through its renewable energy policies. The Sri Lanka Sustainable Energy Authority Act, No. 35 of 2007 is a cornerstone in this regard. It established the Sri Lanka Sustainable Energy Authority (SLSEA) to promote the development of renewable energy sources like solar, wind, and biomass. The formulation of the National Energy Policy and Strategies of Sri Lanka of 2019,[92] further consolidates the renewable energy transition, by reducing reliance on energy imports and promoting energy security, equity, and sustainability by incorporating indigenous energy sources.	To further enhance the regulatory environment for climate finance, Sri Lanka must develop a more comprehensive and coherent framework that directly incentivizes climate-related investments. The introduction of a sovereign Green Bond Framework aligned with international best practices (such as the ICMA's Green Bond Principles) enables both public and private entities to issue bonds aimed at financing green projects. Additionally, to encourage further private sector involvement, Sri Lanka could introduce a carbon pricing mechanism, expanded emission trading system, providing economic incentives for businesses to reduce emissions. Furthermore, Sri Lanka could streamline regulatory approval processes for renewable energy projects and climate-friendly infrastructure.

86 UN (2025) 2.a Montreal Protocol on Substances that Deplete the Ozone Layer - https://treaties.un.org/Pages/ViewDetails.aspx?src=TREATY&mtdsg_no=XXVII-2-a&chapter=27&clang=_en

87 Minamata Convention on Mercury, (2023), 2023 Short Reports of the Minamata Convention on Mercury - https://minamataconvention.org/sites/default/files/documents/national_report/Report_Sri-Lanka_2023_English.pdf

88 UN (2025), 14.United Nations Convention against Corruption - https://treaties.un.org/pages/ViewDetails.aspx?src=TREATY&mtdsg_no=XVIII-14&chapter=18&clang=_en

89 UN (2025), 12. United Nations Convention against Transnational Organized Crime - https://treaties.un.org/pages/ViewDetails.aspx?src=TREATY&mtdsg_no=XVIII-12&chapter=18&clang=_en

90 US (2024), 2024 Investment Climate Statements: Sri Lanka - https://www.state.gov/reports/2024-investment-climate-statements/srilanka/

91 UNEP (2025), About Montreal Protocol - https://www.unep.org/ozonaction/who-we-are/about-montreal-protocol#:~:text=The%20Montreal%20Protocol%20on%20Substances,ozone%20depleting%20substances%20(ODS).

92 Government of Sri Lanka (2019, National Energy Policy and Strategies of Sri Lanka https://www.energy.gov.lk/images/resources/downloads/national-energy-policy-2019-en.pdf

The government offers various fiscal incentives to attract private investment, including feed-in tariffs for renewable energy projects. These feed-in tariffs are structured to encourage investments by guaranteeing a fixed price for renewable energy producers over a set period.[93,94] According to the updated NDCs, the Sri Lankan government is amending or developing new regulatory frameworks concerning all economic sectors. This coupled with revisions and updates to other key government strategies,[95] integrate sustainability measures across numerous domestic industries, securing environmental protection, and circular economy growth, encompassed by a strategic digital guide for technological implementation such as Artificial Intelligence (AI), and Distributed Ledger Technologies (DLTs). In addition to this, the SLCCS facilitates carbon trading under a voluntary framework. It allows businesses to offset their carbon emissions by investing in certified climate-friendly projects, fostering private sector participation in reducing GHGs.[96]	

FINANCIAL INFRASTRUCTURE LEVERS

Existing Levers	Levers Needed
Sri Lanka's financial infrastructure is increasingly engaging with climate finance through various initiatives. The Central Bank of Sri Lanka has issued guidelines encouraging financial institutions to integrate ESG considerations into their operations. This includes the Sri Lanka Sustainable Finance Roadmap, which promotes the adoption of green finance practices across the banking sector.	For Sri Lanka's financial infrastructure to effectively mobilize climate finance at scale, more robust institutional mechanisms and financial products are required. The taxonomy developed by the Central Bank of Sri Lanka provides a clear and consistent classification system for what constitutes a "green" or "sustainable" project, helping investors and financial institutions make informed decisions. This is useful to attract international investment and ensure compatibility with global markets.

93 Climate Change Laws of the World, (2007), Sri Lanka Sustainable Energy Authority Act - https://climatelaws.org/document/sri-lanka-sustainable-energy-authority-act_50d5

94 Sri Lanka Sustainable Energy Authority (2025), Sooriyabala Sangaramaya (Battle for Solar Energy) - https://www.energy.gov.lk/en/soorya-bala-sangramaya

95 Apart from the significant energy regulation changes, the government is currently drafting or has recently amended the National Policy on Waste Management (2020)[95], the National Policy and Strategy on Sustainable Development (Draft 2020) the National Environment Policy (2022)[95], the National Policy for Industrial Development (Draft 2023)[95], and the National Digital Economy Strategy 2030 (2024)[95].

96 Sri Lanka Climate Fund (2025), Sri Lanka Carbon Crediting Scheme - https://www.climatefund.lk/slccs.html

Several commercial banks have introduced green banking products, such as loans for renewable energy projects, energy efficiency, and sustainable agriculture. Additionally, Sri Lanka has secured funding from international sources such as the GCF, ADB, and World Bank for projects related to climate resilience and mitigation, signalling the country's openness to leveraging international finance mechanisms.

Furthermore, the National Digital Economy Strategy aims to broaden internet connectivity encouraging the expansion of digital financial services such as payment systems, into rural areas.[97] This connectivity will facilitate financial flows and investments into the underdeveloped parts of Sri Lanka, which holds plentiful opportunities for climate-related projects. Financial inclusion is a key aspect of a fully functional and robust financial infrastructure.

Lastly, to support private sector engagement, the government could provide risk mitigation instruments such as loan guarantees or partial risk guarantees for climate-friendly projects. These tools reduce the financial risks faced by private investors and banks, thereby unlocking more capital for climate investments.

97 Ministry of Technology (2024), National Digital Economy Strategy 2030 - https://mot.gov.lk/assets/files/National%20Digital%20Economy%20Strategy%202030%20Sri%20Lanka-bc77184e0b6035d235cd0bb1ebf75707.pdf

STAKEHOLDER IDENTIFICATION AND OUTREACH PLAN

The participatory approach, emphasizing upstream stakeholder involvement, is key to ensuring that the development and implementation of the CFS is technically sound, aligned with national priorities, and reflects the diverse interests of stakeholders. Engaging stakeholders across various sectors boosts the strategy's effectiveness in meeting both national and international climate commitments. To achieve this, the stakeholder engagement plan follows a structured process that includes five key stages:

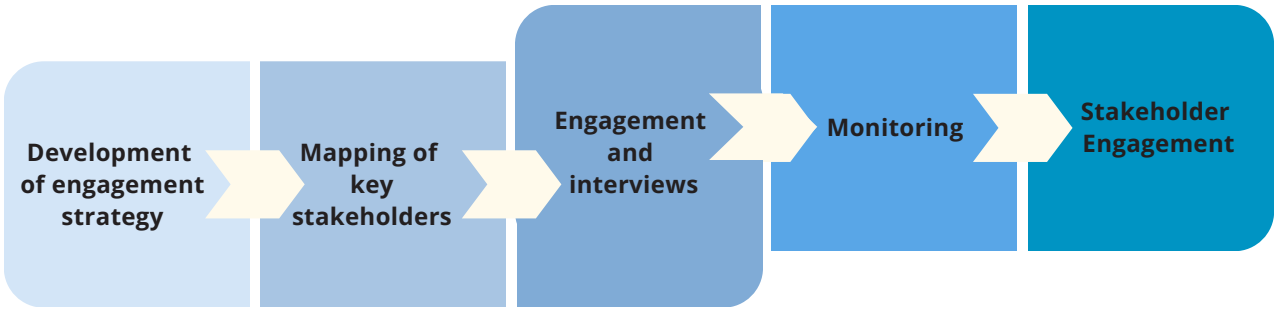


Figure 6 *Stakeholder Engagement Framework*

This stakeholder engagement plan provides a comprehensive structure, outlining clear goals, activities, and engagement methods, while specifying success indicators for each phase of engagement. The stakeholders' roles, priorities, and areas of influence are mapped to ensure that the appropriate expertise and resources are effectively mobilized. The next sub-chapters outline different stakeholders that need to be consulted. The MoF is the entity responsible for the implementation of this CFS. In this endeavor, the MoF has to closely engage with various stakeholders, including the Ministry of Environment. Each stakeholder group affects the success of the CFS in different ways, depending on their influence on policy, project implementation, or finance mobilization.

DOMESTIC PUBLIC STAKEHOLDERS

Government Ministries: Ministries such as the MoF, Ministry of Environment, Ministry of Power and Energy, and Ministry of Agriculture hold high influence and interest in the CFS. Each ministry plays a pivotal role in shaping climate-related policies, budget allocations, and regulatory frameworks:

- The MoF is critical in mobilizing both domestic and international financial resources for climate projects and setting up financial instruments such as green bonds.
- The Ministry of Environment is the national focal point to the UNFCCC and is responsible for ensuring alignment with international climate commitments, such as the Paris Agreement, coordinating between agencies and spearheading efforts to meet national climate targets.
- The Ministry of Power and Energy focuses on the transition to renewable energy, developing sustainable energy infrastructure, and promoting energy efficiency projects.
- The Ministry of Agriculture is responsible for implementing climate adaptation strategies, particularly in climate-smart agriculture, ensuring food security, and reducing the sector's climate vulnerabilities.

Local Government Authorities: Local government authorities have a significant influence at the regional level and are primarily responsible for executing climate finance initiatives on the ground. Their interest lies in implementing climate adaptation projects, such as sustainable urban planning, flood management, and disaster risk reduction in vulnerable regions. Local authorities play a crucial role in ensuring that climate finance reaches communities, addressing local needs, and integrating climate resilience measures.

DOMESTIC PUBLIC STAKEHOLDERS

Private Sector including Banks, Investors, Corporations: The private sector, including commercial banks, investors, and corporations, holds a critical role in mobilizing private capital for climate-related projects. Their interest stems from the profitability and sustainability of green investments:

- Banks and investors are key players in structuring financial products such as green bonds, blended finance mechanisms, and de-risking strategies for climate projects.
- Corporations, particularly those in energy, agriculture, and construction sectors, need to align with the national low-carbon development trajectory. SMEs will benefit from financial incentives to innovate in areas such as renewable energy and climate-resilient infrastructure.

Entrepreneurial Ecosystems: Startups and innovation hubs focusing on clean technology, sustainable agriculture, and renewable energy are essential for driving climate innovation. These stakeholders are highly interested in the financial opportunities and technological support available under the CFS to scale their solutions.

INTERNATIONAL PUBLIC STAKEHOLDERS

International Development Agencies: Agencies such as the World Bank, UNDP, and ADB, among others, are key financiers and technical advisors to Sri Lanka's climate finance initiatives. These agencies provide significant concessional financing and capacity-building support to ensure projects are aligned with global climate objectives. They focus on integrating international best practices into Sri Lanka's climate policies and financing mechanisms, helping to ensure achievement of sustainable project outcomes that contribute to the global fight against climate change.

INTERNATIONAL PRIVATE STAKEHOLDERS

Foreign Investors and Impact Investors: These stakeholders, including foreign banks, investment firms, and impact investors, are critical in bringing foreign direct investment (FDI) into Sri Lanka's climate initiatives. Their influence lies in their ability to provide financing for large-scale infrastructure projects such as renewable energy facilities and sustainable urban transport systems. Impact investors, in particular, seek projects that offer measurable environmental and social returns, making them ideal partners for funding climate adaptation and mitigation projects.

Multinational Corporations (MNCs): MNCs involved in sectors such as clean energy, sustainable agriculture, and climate technology are potential partners in climate finance projects. They bring not only financial resources but also technical expertise and global best practices to support Sri Lanka's climate resilience and sustainability efforts.

CIVIL SOCIETY AND NON-GOVERNMENTAL ORGANIZATIONS

Non-Governmental Organizations (NGOs), Civil Society Organizations (CSOs), and advocacy groups are important for ensuring transparency, accountability, and inclusivity in the CFS. They represent vulnerable communities and often lead grassroots initiatives on climate adaptation and resilience. NGOs ensure that climate finance is reaching the most affected and vulnerable populations, advocating for equitable distribution of resources, and ensuring that project implementation aligns with local needs.

STAKEHOLDER CAPACITY BUILDING

Stakeholder capacity building associated with the CFS is designed to align the skills, knowledge, and institutional capacities of key stakeholders with national climate priorities, to address their specific needs, and adhere to international climate commitments. This will use a structured approach based on a Training Needs Assessment (TNA), organizational assessments, and capacity-building best practices to ensure that stakeholders are equipped to mobilize, manage, and effectively implement climate finance. This represents the approximate timeline split into the different steps of capacity building.

Step	Activities	Timeline (Months)	Duration
Step 1: Conduct a Comprehensive Needs Assessment	Conduct Needs Assessment, Organizational Analysis, Task Analysis, and Learner Analysis	Month 1 - Month 3	3 months
	Finalize Assessment Report and Validate with Stakeholders	Month 3	1 month
Step 2: Define Learning Objectives and Training Scope	Develop Learning Objectives and Training Content Scope	Month 4	1 month
	Define Key Topics and Align with Stakeholder Groups	Month 4	1 month

Step 3: Design the Training Programme	Design Training Content, Structure, and Delivery Formats	Month 5 - Month 6	2 months
	Review Training Programme with Stakeholders	Month 6	1 month
Step 4: Deliver the Training	Implement Instructor-Led Training (In-person/Virtual)	Month 7 - Month 9	3 months
	Conduct Workshops, Online Sessions, and E-learning Modules	Month 7 - Month 9	3 months
Step 5: Assess the Learning	Formative and Summative Assessments	Month 9	1 month
	Collect Participant and Trainer Feedback	Month 9	1 month
Step 6: Ensure Sustainability of the Capacity Building Efforts	Training of Trainers and Establish Knowledge-Sharing Networks	Month 10 - Month 12	3 months

Table 2 *Timeline for Stakeholder Capacity Building*

STEP 1: CONDUCT A COMPREHENSIVE NEEDS ASSESSMENT

The first step of capacity building is conducting a comprehensive needs assessment. This crucial phase ensures that the training programme is tailored to the specific needs of the key stakeholders involved in Sri Lanka's climate finance ecosystem. The goal is to identify the gaps in knowledge, skills, and institutional capacities that currently hinder the effective mobilization and management of climate finance.

Organizational Analysis

The organizational analysis focuses on evaluating the capacity of the institutions responsible for implementing and managing climate finance within Sri Lanka. These organizations include key government ministries, financial institutions, and local authorities that play a pivotal role in the climate finance ecosystem. The key areas of focus are:

- **MoF:** Assess the ministry's ability to align the national budget with climate finance priorities, manage international climate funds, and coordinate public-sector climate investments. Identify any gaps in policy integration, financial planning, or international funding access.

- **Ministry of Environment:** Evaluate the ministry's effectiveness in integrating climate finance with national environmental, climate policies and ensuring compliance with international climate agreements. Assess their role in channeling funds toward mitigation and adaptation projects.
- **Ministry of Power and Energy and the Sustainable Energy Authority:** Determine the availability of necessary resources and technical capacity to drive the transition to renewable energy and efficiently utilize climate finance to support green energy projects.
- **Local Government Authorities:** Assess the capacity of regional governments to implement local climate adaptation projects. Local government authorities often face challenges in accessing finance and managing climate projects, so the analysis will identify areas of support.

The organizational analysis will identify where systemic gaps exist, such as outdated financial frameworks, insufficient human resources, or unclear mandates, that prevent these institutions from fully leveraging climate finance opportunities.

Task Analysis

The task analysis involves a granular review of the specific duties and responsibilities related to climate finance management for individuals within the key organizations. This step ensures that the training content is directly aligned with the tasks these stakeholders need to perform effectively. By breaking down the responsibilities related to climate finance into specific tasks, the task analysis helps pinpoint where skills gaps exist, whether in technical project management, legal compliance, or financial planning. The identified tasks to analyze are as follows:

- **Project Design and Proposal Writing:** Determine whether stakeholders have the skills to design bankable climate finance projects and write compelling proposals to international funding sources such as the GCF and GEF.
- **Financial Management:** Assess the current capacity of financial managers and planners within ministries and agencies to oversee the deployment of climate finance, including budgeting, disbursement, and reporting.
- **Regulatory Compliance:** Identify whether stakeholders understand the legal and regulatory frameworks governing climate finance, both at the national level and in alignment with international standards.

Learner Analysis

The learner analysis focuses on understanding the background, learning needs, and skills of the stakeholders who will participate in the capacity-building programme. This analysis ensures that the training is tailored to the diverse audience involved in climate finance, from high-level policy makers to on-the-ground implementers. The stakeholder groups could be structured as follows:

- **Government Officials:** High-level policy makers, such as those in the MoF and Ministry of Environment, who need training on aligning national policies with climate finance mechanisms, accessing international funds, and integrating finance into climate goals.
- **Financial Institutions:** Banks and investment firms that require knowledge of green financial instruments such as green bonds, climate-linked loans, and risk mitigation tools like blended finance. Their training will focus on how to structure and manage these instruments to support climate projects.
- **Local Government Authorities:** Provincial and local government officials who often manage small-scale adaptation projects. Their needs will likely center around project management, community-based adaptation strategies, and accessing smaller funding pools for localized climate action.
- **NGOs and CSOs:** NGOs and CSOs that need access to climate finance to implement grassroot adaptation projects. Their training will focus on accessing funds and monitoring project impacts.

Training Customization:

The learner analysis will identify whether stakeholders have prior experience with climate finance and determine their current level of competency. For example, some learners may require basic training on climate finance mechanisms, while others may need more advanced skills in project finance or regulatory compliance. The learner analysis will also address learning preferences, ensuring that the training is accessible to participants with different levels of expertise and preferred learning styles. This could include hands-on workshops for local government officials and more theory-based seminars for high-level ministry personnel.

Context Analysis

The context analysis ensures that the training content is designed in consideration of the specific climate and economic context of Sri Lanka. It will examine:

- **Regulatory Environment:** Understanding the legal framework governing climate finance in Sri Lanka, including the national laws or policies that need to be updated to align with international standards.
- **Current Climate Finance Mechanisms:** Analyzing the existing mechanisms through which Sri Lanka accesses climate finance, including international funds and domestic financial sources, and identifying where these mechanisms can be improved or expanded.
- **Socio-Economic Considerations:** Understanding how the training needs to address the unique socio-economic challenges in Sri Lanka, such as poverty, regional disparities, and community resilience, which impact how climate finance is deployed and used.

STEP 2: DEFINE LEARNING OBJECTIVES AND TRAINING SCOPE

Following the needs assessment in Step 1, the next phase is to define clear and actionable learning objectives and the overall scope of the training programme. These learning objectives ensure that the training addresses the identified gaps in knowledge, skills, and institutional capacity, providing stakeholders with the tools they need to effectively manage and mobilize climate finance.

Learning Objectives

Learning objectives are essential to guide the content of the training programme and measure its success. Each objective is aligned with the specific needs of the key stakeholder groups, ensuring that the training is focused on equipping participants with the exact skills required to perform their roles effectively.

Institution	Objective	Key Focus Areas
Government Ministries and Institutions	Equip officials with the capacity to integrate climate finance mechanisms into national policies.	• Developing effective project proposals for international funding bodies. • Enhancing monitoring and reporting capabilities for climate finance. • Understanding climate finance governance.

Government Ministries and Institutions	Equip officials with the capacity to integrate climate finance mechanisms into national policies.	• Developing effective project proposals for international funding bodies. • Enhancing monitoring and reporting capabilities for climate finance. • Understanding climate finance governance.
Financial Institutions (e.g.:, Banks and Investment Firms)	Enable financial institutions to design, develop, and manage climate finance-related financial instruments to mobilize climate finance.	• Creating and managing climate finance-related instruments and blended finance models. • Understanding de-risking strategies to attract private sector investment. • Enhancing risk management capabilities in climate-related projects.
Local Government Authorities	Empower local government authorities to manage and implement community-based adaptation and mitigation projects using climate finance.	• Developing skills in project design and management for local climate projects. • Accessing and managing small-scale climate finance mechanisms. • Building resilience strategies tailored to local community needs.
CSOs and NGOs	Strengthen the ability of NGOs to mobilize climate finance for community-level projects and ensure project sustainability.	• Gaining access to available climate finance sources. • Enhancing skills in project reporting and accountability. • Developing partnerships with local governments and financial institutions for joint projects.

Table 3 *Learning Objectives of the Capacity Building*

Training Scope

The training scope ensures comprehensive coverage of the topics necessary for effective climate finance management. The scope will be designed to cater to varying levels of expertise across stakeholder groups, with a focus on practical application. The important areas of focus are:

- **Climate Finance Governance:**
  Participants gain a deep understanding of the governance frameworks that regulate climate finance, both at the national and international level. This includes managing and overseeing climate finance flows to ensure transparency and accountability.

- **International Funding Mechanisms:**
  The training covers key global climate finance sources such as the GCF, GEF, Adaptation Fund, Fund for Responding to Loss and Damage, and other multilateral funding opportunities. Participants learn how to apply for these funds, meet the application criteria, and manage international financing for climate projects.

- **Green Financial Instruments:**
  Modules focus on creating and managing financial products such as green bonds, climate-linked loans, and blended finance models. This includes strategies for mitigating financial risks and attracting private sector investment to climate projects.

- **Project Management and Implementation:**
  Local government authorities, CSOs, and NGOs receive targeted training on how to design, implement, and monitor climate projects. The training covers budgeting, fund disbursement, and managing adaptation and mitigation efforts at the community level.

- **Legal and Regulatory Frameworks:**
  The training provides insights into the legal requirements and regulatory frameworks that govern climate finance. Participants learn how to ensure compliance with both national and international climate finance standards.

STEP 3: DESIGN THE TRAINING PROGRAMME

With the learning objectives and scope defined, the next step is to design a structured and engaging training programme tailored to the needs of the identified stakeholder groups. This phase focuses on selecting the right content, delivery methods, and formats to ensure that the training is impactful and aligned with the goals of the CFS.

Content Sequencing and Clustering

The training content will be organized into modules that flow logically from foundational knowledge to more advanced topics, catering to different knowledge levels across stakeholder groups. Key modules include:

- **Climate Finance Basics:** Overview of climate finance mechanisms, policies, and global frameworks.
- **Advanced Financial Instruments:** Development of green bonds, blended finance models, risk mitigation strategies, et cetera.
- **Project Management:** Practical skills in project design, implementation, and monitoring.
- **Legal and Regulatory Compliance:** Navigating national and international regulatory frameworks for climate finance.

Interactive Learning Methods

The training incorporates a variety of interactive methods to enhance engagement and practical application. These methods ensure that participants not only understand theoretical concepts but also gain practical experience in managing climate finance. Interactive learning methods include:

- **Workshops:** Hands-on, problem-solving sessions to simulate real-world climate finance scenarios.
- **Group Projects:** Collaborative projects to develop climate finance proposals or implement local adaptation initiatives.
- **Case Studies:** Analysis of successful climate finance projects from other countries to draw insights and best practices.

Delivery Formats

The training will be delivered using a blended learning approach:

- **In-person workshops:** For high-level stakeholders and technical experts to allow for intensive, focused learning.
- **Virtual sessions:** For regional and international participants, ensuring broader access to the training.
- **Self-paced e-learning:** Supplementary materials and resources for participants to explore topics at their own pace.

STEP 4: DELIVER THE TRAINING

Once the training programme is designed, the next phase focuses on delivering the content effectively to ensure participants acquire the necessary skills and knowledge to manage climate finance. Methods of delivery include:

Interactive Learning Methods

- **Workshops and Online Sessions:** Key stakeholders, such as government officials and financial institutions, attend in-depth, instructor-led workshops. These sessions focus on practical skills, such as developing climate finance proposals, budgeting, and managing green financial instruments.
- **Expert Trainers:** The sessions are led by climate finance experts who are familiar with both global standards and the local context in Sri Lanka. This ensures the training remains relevant and actionable for participants.

Blended Learning Approach

- **Virtual Training Sessions:** For stakeholders in remote areas or those with limited access to in-person sessions, virtual trainings are conducted via a suitable platform such as Zoom or MS Teams. This allows for wider participation and ensures inclusivity.
- **Self-paced e-learning:** Supplementary materials are made available online, allowing participants to review the content at their own pace, especially for more technical aspects like financial modeling or regulatory compliance.

Practical Application and Group Work

- **Hands-on Projects:** Participants are able to refer to real-world examples or case studies that reflect the challenges of mobilizing climate finance. This approach ensures that learning is immediately applicable, reinforcing the skills needed for their roles.
- **Collaborative Activities:** Group projects and discussions bring collaboration among stakeholders, encouraging knowledge-sharing and partnerships across sectors.

STEP 5: ASSESS THE LEARNING

Assessing the learning outcomes is a critical step to ensure that the training has effectively met the objectives and that participants are equipped to apply their new skills in real-world situations. This step focuses on evaluating both the immediate impact of the training and the long-term application of the skills learned. Assessments include:

STEP 5: ASSESS THE LEARNING

Assessing the learning outcomes is a critical step to ensure that the training has effectively met the objectives and that participants are equipped to apply their new skills in real-world situations. This step focuses on evaluating both the immediate impact of the training and the long-term application of the skills learned. Assessments include:

1. Formative Assessment

- **Continuous Feedback:** During the training, participants are assessed through ongoing methods such as quizzes, short tests, and group discussions. This allows trainers to gauge the understanding of the participants in real-time and make any necessary adjustments to the content or teaching methods.

2. Summative Assessment

- **Post-Training Evaluations:** At the end of each module, participants are assessed on their ability to meet the defined learning objectives. This may include practical exams where they demonstrate their ability to complete tasks like budgeting for climate projects, identifying financing gaps, or managing climate-related risks.

3. Participant Feedback

- **Surveys and Questionnaires:** After completing the training, participants provide feedback on the quality of the programme, the effectiveness of the learning methods, and whether the training met their professional needs.
- **Feedback from Trainers:** Trainers will also provide input on how well participants engaged with the material and applied their learning, giving insights into areas where further improvement may be needed.

STEP 6: ENSURE SUSTAINABILITY OF THE CAPACITY BUILDING EFFORTS

The final step of the Capacity Building focuses on ensuring the long-term sustainability of the training efforts. This step guarantees that the knowledge and skills gained during the training are continuously applied, expanded, and institutionalized across relevant organizations, ensuring ongoing progress in Sri Lanka's climate finance objectives.

Training of Trainers

- **Objective:** A selected group of participants, particularly from government ministries and key financial institutions, will undergo additional training to become trainers themselves. This ensures that the capacity-building programme can be replicated and extended beyond the initial participants, creating a multiplier effect.
- **Implementation:** These trainers are responsible for conducting future training sessions within their respective organizations, ensuring that new staff members and officials are consistently brought up to speed on climate finance management.
- **Long-Term Support:** Trainers have access to mentoring and regular updates on the latest developments in climate finance to ensure their knowledge stays current.

Establishing Knowledge-Sharing Networks

Establish Climate Finance Learning Networks where participants can continue sharing knowledge and best practices with each other. This fosters ongoing collaboration between different stakeholder groups, including government agencies, financial institutions, local authorities, and NGOs.

ANNEXURES

LOSS AND DAMAGE FINANCING

Climate finance is defined as local, national, or international financial flows from public, private, and alternative sources. These funds are specifically directed towards supporting actions that mitigate climate change (reducing GHG) and adaptation efforts (building resilience to the impacts of climate change). However, this definition has limitations. It excludes L&D, which emerged as a distinct concept during COP 13 in 2007. L&D refers to the irreversible and unavoidable impacts of climate change which developing countries in particular are already experiencing. These impacts can cause economic and non-economic losses and addressing them requires dedicated financial resources. Over time, the concept of L&D has gained traction and is increasingly recognized as a crucial third pillar of climate finance, alongside mitigation and adaptation.

L&D finance refers to the financial mechanisms established to address the residual impacts of climate change that cannot be mitigated and are beyond the means of adaptation. This includes the coverage of economic and non-economic losses. Economic losses involve damage to infrastructure, crops, and other tangible assets, while non-economic losses encompass cultural heritage, biodiversity degradation, and human health. L&D impacts can be particularly severe in developing countries, which often have fewer resources to cope with climate-induced disasters.[98] Failing to account for these losses results in a significant underestimation of the true costs of L&D, particularly in regions with widespread informality. While existing strategies often focus on financial aspects, they overlook the critical impacts to informal livelihoods, which are highly vulnerable yet excluded from traditional economic measures like GDP. Informal sectors face significant economic and non-economic losses that remain largely unrecognized, even though they deeply affect the wellbeing of marginalized populations. For example, when disasters strike informal settlements, the economic loss may seem minimal in official estimates, but the damage to homes, livelihoods, and social networks can be devastating. This underscores the need to include both economic and non-economic losses in L&D assessments, ensuring a comprehensive approach that addresses unique and varied dimensions of vulnerability.[99]

Unchecked climate change could cost the global economy up to USD 178 trillion by 2070, equating to a 7.6% cut to global GDP.[100] This immense economic burden arises from various factors, including loss of productivity, increased healthcare costs, and damages from extreme weather events. The human costs are equally severe. Projections indicate that by mid-century, there could be around a 5-fold increase in heat-related deaths. In 2022 alone, individuals were already experiencing an average of 86 days of health-threatening high temperatures.[101]

98 WRI, (2024), What Is 'Loss and Damage' from Climate Change? 8 Key Questions, Answered - https://www.wri.org/insights/loss-damage-climate-change

99 IIED & UNDP, (2024), Taxonomy of climate attributable loss and damage and scalable responses related to DRR, health and human mobility - https://www.undp.org/asia-pacific/publications/taxonomy-climate-attributable-loss-and-damage-and-scalable-responses-related-drr-health-and-human-mobility

100 Deloitte, (2022), Deloitte research reveals inaction on climate change could cost the world's economy US$178 trillion by 2070 - https://www.deloitte.com/global/en/about/press-room/deloitte-research-reveals-inaction-on-climate-change-could-cost-the-world-economy-us-dollar-178-trillion-by-2070.html

101 UCL (2023), New global projections highlight 'enormous human cost' to climate inaction - https://www.ucl.ac.uk/news/2023/nov/new-global-projections-highlight-enormous-human-cost-climate-inaction

Inaction also leads to broader social challenges, including increased conflict and migration. The number of people with uncertain access to food is projected to rise significantly, with climate change driving food insecurity and water stress, potentially displacing up to 1.2 billion people by 2050.[102] These impacts represent not only adaptation challenges but also irreversible L&D particularly in contexts where adaptation is no longer feasible or has failed. L&D finance is therefore essential to address the residual risks and support communities facing the most severe consequences of climate change.

The estimated costs of adaptation in developing countries are, on average, roughly four times higher than the USD 56 billion of tracked adaptation finance reaching those countries in 2021-2022. Developing countries are particularly vulnerable, with estimated investment needs ranging from USD 130 billion to USD 415 billion annually by 2030 to address the projected impacts.[103] Accurately estimating adaptation will requires integrated data collection, effective modelling tools, and strong technical capacities within developing countries. Without these elements, existing needs assessments likely underestimate the true cost of adaptation measures.

For every dollar invested in climate adaptation there is an economic benefit of USD 12 (i.e. investment of USD 30.4 billion would lead to USD 338.8 billion of avoided climate related costs and a USD 37.8 billion GDP increase).[104] However, where adaptation is insufficient or delayed, the costs of L&D escalate rapidly, reinforcing the need for dedicated L&D finance mechanisms to support recovery, compensation, and resilience-building.

Major barriers for private sector investment include limited capacity and capabilities to understand adaptation, adaptation benefits, and the lack of adequate adaptation project sourcing and evaluation.[105,106] These barriers are even more pronounced in the context of L&D, where the complexity and uncertainty of impacts make investment riskier and less understood.

Taxonomies, which categorize information, could be a useful tool in this context of L&D given the limited understanding of the market around this topic. A well-designed taxonomy for L&D can be a valuable tool to prioritize interventions and resource allocation. By systematically categorizing the most vulnerable areas, communities, and their exposure to different types of climate risks, such taxonomies in different regions can enhance understanding and communication for researchers and policymakers. This improved understanding allows decision-makers to pinpoint the most pressing needs and identify the most effective interventions, ensuring that L&D finance is directed where it is most urgently required.

102 CPI (2024), The Cost of Inaction - https://www.climatepolicyinitiative.org/the-cost-of-inaction/
103 UNEP (2023). Adaptation Gap Report 2023 - https://www.unep.org/resources/adaptation-gap-report-2023
104 Standard Chartered (2024), Adaptation Economy - https://standardcharteredbank.turtl.co/story/the-adaptation-economy/page/4/1
105 The Adaptation & Resilience Investors Collaborative (ARIC) Investment Approaches & Vehicles Working Group identified
106 Standard Chartered (2024). The Adaptation Economy. - https://standardcharteredbank.turtl.co/story/the-adaptation-economy/page/6/2

TYPOLOGY OF SOLUTION SELECTION IN THE CONTEXT OF SRI LANKA

The formulation of solutions under the CFS is designed to identify financial mechanisms that are both viable and capable of delivering substantial impact. This strategic approach was initiated with the careful development of key evaluation criteria. Upon the establishment of these criteria, a quantitative assessment was used, following a detailed scoring process to systematically evaluate and rank prospective financial instruments. This step enabled to narrow options to mechanisms that demonstrate the highest potential for successful implementation within the national context. The Strategy ensures the optimal allocation of resources toward initiatives that are most likely to generate meaningful outcomes.

Following this quantitative evaluation, the methodology advances to a phase of qualitative review and validation. During this stage, the shortlisted financial solutions underwent a comprehensive analysis and extensive stakeholder consultations to assess their feasibility and contextual relevance. This process, combined with the initial evaluation, fortified the methodology, making it both dynamic and adaptable. Such an approach ensured that the strategy remained responsive to the evolving landscape of climate-related challenges and opportunities in Sri Lanka, while also giving a sense of ownership and collaboration among key stakeholders.

MAPPED CLIMATE FINANCE AGENCIES FOR SRI LANKA TO APPROACH

Climate Financing Agencies	Thematic Areas	How Sri Lanka can Approach	Relevant Financial Solutions
GCF	• Climate adaptation and mitigation. • Energy generation and access • Health, food and water security	• Developing effective project proposals for international funding bodies. • Enhancing monitoring and reporting capabilities for climate finance. • Understanding climate finance governance.	• Green, Blue, or Sustainability Bonds (GSS+) • PPPs for Climate Action • Green loans
GEF	• Biodiversity conservation. • Land degradation, water resources, and ecosystems. • Sustainable urban development and nature-based adaptation	• Submit proposals targeting biodiversity conservation and land degradation hotspots • Engage in debt-for-nature swaps to support ecosystem restoration • Promote eco-tourism tied to sustainable development	• NCA • ESG Swaps • Promotion of Sustainable Tourism • Entrance Fees

Adaptation Fund	• Disaster risk reduction/ early warning systems • Agriculture, food security, water management • Rural and urban development	• Highlight community-driven adaptation projects like climate-smart agriculture and flood resilience. • Focus on scalable initiatives like weather-indexed insurance • Build capacity for local adaptation planning to strengthen grassroots engagement	• Subsidies for GAP • Disaster Risk Insurance • GRF
FRLD	• Post-disaster recovery and rehabilitation. • Addressing socio-economic losses from climate impact. • Financial assistance for vulnerable communities.	• Submit proposals for L&D financing tied to vulnerable coastal and rural communities. • Leverage innovative instruments like parametric insurance for rapid disaster recovery • Integrate L&D-linked bonds with climate recovery strategies	• Disaster Risk Insurance • ODA • GSS+ Bond (L&D-linked)

Table 4 *Overview of Climate Financing Agencies*

RAPID SCREENING OF CLIMATE RELATED FINANCIAL PRODUCTS

In this phase, 157 climate-related financial mechanisms were evaluated based on three key criteria: 1) potential for climate impact, 2) scale of financial opportunity, and 3) political feasibility. Under the first criteria, each solution was assessed, focusing on its ability to contribute to climate adaptation, mitigation and L&D. Next, how much a solution could potentially mobilize or save in financial resources, relative to Sri Lanka's current climate finance needs, was measured. The third criterion took into account the viability of each solution within Sri Lanka's current political and regulatory framework. Factors such as commercial viability, potential social resistance, and operational challenges were considered. Solutions were scored on a scale from 0 to 4. To pass this rapid screening, a solution had to achieve a minimum cutoff score of 10 across the three criteria. Solutions that were deemed to have a very high likelihood of success—marked by broad political and social support, manageable operational barriers, and proven scalability—received the highest scores. Those facing significant political or technical hurdles were scored lower. Following this process, the initial pool of 157 solutions was narrowed down to 71, which were then taken forward for more detailed evaluation. The table below represents the questions posed in the rapid screening section.

CriteriaCriteria	Scoring Guidelines
Potential for Climate Impact	1. No or insignificant impact 2. Low impact or high uncertainty about the same 3. Moderate impact on climate adaptation, mitigation and L&D 4. High impact on climate adaptation, mitigation and L&D 5. Very high impact on climate adaptation, mitigation and L&D
Scale of Financial Opportunity	1. Minimal scale of resources mobilized or saved compared to current expenditures or needs 2. Potential to mobilize or save a low amount of resources. Approximately under 1 percent of current expenditure or needs 3. Potential to mobilize or save a moderate amount of resources. Approximately between 1-5 percent of current expenditure or needs. 4. Potential to mobilize or save a high amount of resources. Approximately about 5-15 percent of current expenditure or financing needs 5. Potential to mobilize or save a very high amount of resources. A significant impact on the biodiversity f inance agenda
Political Feasibilty and Likeliyhood of Success	1. Virtually no chance of success under current conditions. Commercially unviable (if relevant) 2. Low likelihood of success due to high political and social resistance or major operational or technical barriers. Limited commercial viability (if relevant) 3. Moderate likelihood of success due to limited political and social support or known operational or technical barriers. Limited commercial viability (if relevant). Limited record of success, replicability or scalability in comparable contexts 4. High likelihood of success. Sufficient political and social support. Commercially viable (if relevant). Operational challenges are manageable.Relevant record of success, replicability or scalability in comparable contexts 5. Very high likelihood of success. Broad political and social support and sound commercial viability (if relevant). No operational challenges known. Strong record or expectation of success, replicability or scalability in comparable contexts

Table 5 *Rapid Screening Questions*

DETAILED SCREENING

The second phase delved into a more comprehensive and in-depth evaluation of the 71 shortlisted solutions identified in the rapid screening phase. This step aimed to assess the feasibility, scalability, and overall potential impact of each solution through a series of nine targeted questions. Each solution was first analyzed based on its “Record of Implementation”, where evaluators examined whether there was a history of successful implementation. This question helped determine whether a solution had been piloted or implemented before and how effectively it had functioned. A solution with a proven track record of successful implementation, particularly within similar contexts, scored higher, while those with unclear or no prior implementations received lower scores.

Another key aspect of the detailed screening was the assessment of whether the solution could “Generate, Leverage, Save, or Realign a Large Volume of Financial Resources”. This criterion focused on the capacity of the solution to bring in substantial financial resources, either through mobilization, savings, or reallocation. Solutions capable of driving a significant financial impact, marked by the ability to mobilize resources equivalent to or greater than 15% of current expenditures, were prioritized for their transformative potential. The “Timeliness of Financing Mobilization” was also evaluated. This question examined whether the financial resources required for the solution could be mobilized in a timeframe compatible with the urgency of Sri Lanka's climate financing needs. Solutions that could ensure the timely availability of funds, avoiding delays, received higher scores, emphasizing the importance of prompt and efficient financial mobilization.

In addition, evaluators looked at the “Stability and Predictability of Financing”. This criterion measured how dependable the financial resources would be over time. Solutions backed by stable and predictable financing sources were viewed more favorably, as they provided assurance that funding would be available when needed, even in the face of external economic fluctuations. “Political Risk Management” was also posed as a question during this phase. This involved assessing how well potential political risks were anticipated and managed within the framework of the solution. Solutions with well-defined strategies to mitigate political risks scored higher, as they were seen as more likely to succeed in a complex political environment.

The evaluation also considered “Stakeholder Buy-In”. This question examined whether there was sufficient support from key stakeholders, including investors, decision-makers, implementers, and beneficiaries. Solutions that enjoyed strong buy-in were considered more robust, as they were less likely to face opposition during implementation. The “Legal Feasibility” of each solution was also scrutinized. This aspect assessed whether the solution could be implemented within the current legal framework or if new laws or regulations would be required. Solutions that could proceed without the need for new legislation or complicated regulatory changes scored higher, as they were easier to implement. “Institutional Coherence and Synergies” were also evaluated, this looked at how well the solution fit within existing institutional structures. Solutions that could be integrated seamlessly within current frameworks, creating synergies with other ongoing efforts, scored higher, as they were likely to be more efficient and effective.

Finally, each solution was assessed for its “Scalability and Replicability”. This criterion measured the potential for the solution to be scaled up or replicated across different regions, or even globally. Solutions that could be easily adapted and implemented in various contexts were considered more valuable, as they offered broader benefits beyond a single application.

For a solution to advance beyond this phase, it needed to achieve a cutoff score of 33 across these nine criteria. This thorough evaluation process ensured that only those solutions with strong, proven potential for impact, feasibility, and scalability were taken forward. Ultimately, this process narrowed the list down to 21 solutions, which were then subjected to the final step of a qualitative assessment. The table below presents the questions posed in this part of the typology.

CriteriaCriteria	Scoring Guidelines
Is there a positive record of implementation?	1. None 2. Ongoing pilots – results unclear 3. Successful pilots, functions poorly 4. Currently functions moderately in country 5. Currently functions well in country
Will it generate, leverage, save, or realign a large volume of financial resources?	1. No, or an insignificant volume 2. 1 % or less of current expenditures/finance needs 3. 1=5 % of current expenditures/needs 4. 5=15 % of current expenditures/needs 5. Game changer, > 15 %
Will financing sources be mobilized in a timeline compatible with needs?	1. No, delays expected 2. Moderate likelihood of being mobilized in alignment with needs 3. Yes, forthcoming and compatible schedules
Will financing sources be stable and predictable?	1. No, highly unstable and vulnerable to external factors 2. Likelihood of being reasonably stable and predictable source 3. Yes, very stable and predictable
Have political risks been anticipated and managed?	1. No, high risks remain 2. Moderate and manageable 3. Yes, minimal residual risks
Is buy-in among stakeholders (i.e. potential investors/ decision makers, implementers, and beneficiaries) sufficiently strong to counter potential opposition?	1. No, weak buy-in 2. Moderate buy-in 3. Yes, strong buy-in

Is it legally feasible? How challenging will any legal requirements be?	1. No, new law is required 2. New regulations required 3. New regulations are not needed
Is it coherent with the existing institutional architecture and can synergies be achieved?	1. No, limited or no synergies/coherence 2. Potential synergies 3. Yes, fully coherent/large synergies and compatibilities
How scalable or replicable is the solution?	1. The solution is one-off and highly tailor-made 2. The solution can be replicated with significant effort or financial support 3. The solution can be replicated within the same country region context 4. The solution can be replicated globally with medium effort 5. The solution can be replicated everywhere. This is a mainstream product

Table 6 *Deep Dive Screening Questions*

WORKSHOP WITH MINISTRY OF FINANCE AND OTHER STAKEHOLDERS (QUALITATIVE ASSESSMENT)

The final step in the selection process was the Qualitative Assessment, where the shortlisted solutions were reviewed and validated through direct engagement with stakeholders. This phase involved collaborative workshops, discussions, and consultations to ensure that the selected solutions were not only technically sound but also aligned with the specific needs and capacities of Sri Lanka. To support this process a workshop was held on 12 July 2024 which brought together representatives from the Ministry of Finance, various government agencies, private sector organizations and other stakeholders. The primary goal of this workshop was to collaboratively review the solutions, using practical insights and obtain feedback from those who would be directly involved in or affected by the implementation of these solutions.

This workshop was instrumental in helping the Ministry to consider the various categories of financial solutions and reassess their feasibility within the Sri Lankan context. During the workshop, participants engaged in discussions focusing on the practicality and potential impact of each category of the financial solutions. The aim was to ensure that the solutions were aligned with national priorities and adaptable to the specific needs and capacities of Sri Lanka. For example, the discussion highlighted the importance of subsidies, offsets and credits, insurance products, and CSR initiatives, among others, as key areas for consideration. The insights and feedback gathered during this workshop were crucial in refining the list of potential solutions and ensuring that they are well-suited for inclusion in the CFS.

Additionally, the workshop provided a platform to address any regulatory or operational barriers that might hinder the success of the proposed solutions. Participants emphasized the need for an enabling environment, suggesting regulatory improvements to support mechanisms like crowdfunding and green bonds. The discussions underscored the importance of coordinated efforts across government agencies to create a supportive regulatory framework. The feedback and insights gathered during this qualitative assessment were crucial in refining the final list of solutions. Ultimately, 12 financial mechanisms were selected for deeper assessment and potential implementation, ensuring that they were not only effective and scalable but also had the necessary support from key stakeholders. This collaborative, feedback-driven approach ensured that the solutions chosen for the CFS were practical, adaptable, and capable of driving meaningful climate action.

The CFS was validated with relevant stakeholders on 26 March 2025.

KEY DISCUSSIONS AND PROCESS

During the workshop, participants were engaged in in-depth discussions about the different categories of financial solutions included in the database. The MoF representatives, along with other stakeholders, played a crucial role in scrutinizing each category to determine the relevance and feasibility of application in Sri Lanka. This collaborative process allowed for a comprehensive review of the solutions, with stakeholders providing valuable insights into the practical challenges and opportunities associated with each financial mechanism.

CHALLENGES AND OPPORTUNITIES

Several challenges were identified during the discussions, including the need for regulatory improvements to support certain financial mechanisms, such as disaster risk insurance and PPPs. The MoF highlighted the importance of creating an enabling environment for these solutions to thrive, which would require close coordination between different government agencies and the private sector. The workshop also provided an opportunity to explore the synergies between different financial solutions.

REFERENCES

CPI. (2024). Top-Down Climate Finance Needs. https://www.climatepolicyinitiative.org/publication/top-down-climate-finance-needs/

Aceli Africa, Chronic Lack of Finance in Agriculture Sector - https://aceliafrica.org/what-we-do/opportunity/

ADB (2015), Local Currency Bonds and Infrastructure Finance in ASEAN+3- https://www.adb.org/publications/local-currency-bonds-and-infrastructure-finance-asean3

ADB (2024), ADB Approves $100 Million Loan to Support SMEs in Sri Lanka - https://www.adb.org/news/adb-approves-100-million-loan-support-smes-sri-lanka

ADB (2025). Credit Guarantees for Women's Small Businesses - https://www.adb.org/multimedia/partnership-report2023/our-stories/credit-guarantees-for-womens-small-businesses/

ADB, (2024), Sri Lanka: Country Partnership Strategy (2024–2028) - https://www.adb.org/documents/sri-lanka-country-partnership-strategy-2024-2028

ADB. (2023). Common Principles for Climate Mitigation Finance Tracking. https://www.eib.org/attachments/documents/mdb_idfc_mitigation_common_principles_en.pdf

Agreement on South Asian Free Trade Area (SAFTA) - https://www.saarc-sec.org/index.php/resources/agreements-conventions/36-agreement-on-south-asian-free-trade-area-safta/file

AON, (2023), Weather, Climate and Catastrophe Insight. - https://www.aon.com/getmedia/f34ec133-3175-406c-9e0b-25cea768c5cf/20230125-weather-climate-catastrop

Bilaterals, (2024), Sri Lanka to join Regional Comprehensive Economic Partnership – President - https://www.bilaterals.org/?sri-lanka-to-join-regional

BIOFIN, (2024), Repurposing agricultural subsidies for the benefit of farmers and nature - https://www.biofin.org/news-and-media/repurposing-agricultural-subsidies-benefit-farmers-and-nature

Black Rock, Climate Finance Partnership - https://www.blackrock.com/institutions/en-us/strategies/alternatives/real-assets/infrastructure/climate-finance-partnership

Carbon Pulse (2024). Sri Lanka publishes 'positive' list of Article 6-aligned projects. https://carbon-pulse.com/324790/

CBD (2001), Tourism User Fees - https://www.cbd.int/doc/nbsap/finance/Guide_Tourism_Nov2001.pdf

CBD (n.d.). Sri Lanka – Country Profile. https://www.cbd.int/countries/profile?country=lk

CBD, (2001), Tourism User Fees - https://www.cbd.int/doc/nbsap/finance/Guide_Tourism_Nov2001.pdf

CDKN (2013). Index-based livestock insurance: The case of Mongolia. https://cdkn.org/sites/default/files/files/Mongolia_InsideStory_Pr4Final_WEB.pdf

CEF (2023), Macro-level insurance for financing post-disaster recovery: The case of National Disaster Insurance Policy in Sri Lanka - https://www.anserpress.org/journal/cef/1/1/2

Climate Bonds Initiative - https://www.climatebonds.net/resilience

Climate Change Laws of the World, (2007), Sri Lanka Sustainable Energy Authority Act - https://climate-laws.org/document/sri-lanka-sustainable-energy-authority-act_50d5

Climate Economics and Finance (CEF), (2023), Macro-level insurance for financing post-disaster recovery: The case of National Disaster Insurance Policy in Sri Lanka - https://www.anserpress.org/journal/cef/1/1/2

Climate Home News (2022). Sri Lanka can't afford fossil fuels but can't afford to get off them either. https://www.climatechangenews.com/2022/07/28/sri-lanka-cant-afford-fossil-fuels-but-cant-afford-to-get-off-them-either/#:~:text=Between%201990%20and%202000%2C%20Sri,imports%20of%20oil%20and%20coal.

Climate Policy Initiative & Global Center on Adaptation, (2024), State and Trends in Climate Adaptation Finance 2024 - https://gca.org/wp-content/uploads/2024/04/State-and-Trends-in-Climate-Adaptation-Finance-2024.pdf

Climate Policy Initiative (CPI), (2024), Landscape of Guarantees for Climate Finance in EMDEs - https://www.climatepolicyinitiative.org/publication/landscape-of-guarantees-for-climate-finance-in-emdes/

Countries Sri Lanka has established agreements with include the EU[1], India[1], Pakistan[1], South Asian Association for Regional Cooperation (SAARC)[1], Singapore[1], and Thailand[1].

CPI (2023). Global Landscape of Climate Finance. https://www.climatepolicyinitiative.org/wp-content/uploads/2023/11/Global-Landscape-of-Climate-Finance-2023.pdf

CPI (2024), The Cost of Inaction - https://www.climatepolicyinitiative.org/the-cost-of-inaction/

CPI (2024). De-Risking Private Investment Guarantees. https://compass.climatepolicyinitiative.org/themes/concessional-finance/de-risking-private-investment-guarantees?

CPI (2024). Tracking and Mobilizing Private Sector Climate Adaptation Finance. https://www.climatepolicyinitiative.org/publication/tracking-and-mobilizing-private-sector-climate-adaptation-finance/

CPI, (2023), Global Landscape of Climate Finance 2023 - https://www.climatepolicyinitiative.org/wp-content/uploads/2023/11/Global-Landscape-of-Climate-Finance-2023.pdf

CPI, (2024), The Cost of Inaction - https://www.climatepolicyinitiative.org/the-cost-of-inaction/

CPI. (2024). Tracking and Mobilizing Private Sector Climate Adaptation Finance. https://www.climatepolicyinitiative.org/publication/tracking-and-mobilizing-private-sector-climate-adaptation-finance/#:~:text=Adaptation%20finance%20tracked%20in%20the,annual%20average%20in%202019%2F20.

David Matthäus, Michael Mehling (2020), De-risking Renewable Energy Investments in Developing Countries: A Multilateral Guarantee Mechanism, Joule, Volume 4, Issue 12 - https://www.sciencedirect.com/science/article/pii/S2542435120305006

Deloitte, (2022), Deloitte research reveals inaction on climate change could cost the world's economy US$178 trillion by 2070 - https://www.deloitte.com/global/en/about/press-room/deloitte-research-reveals-inaction-on-climate-change-could-cost-the-world-economy-us-dollar-178-trillion-by-2070.html

Deloitte. (2022). Deloitte research reveals inaction on climate change could cost the world's economy US$178 trillion by 2070. https://www.deloitte.com/global/en/about/press-room/deloitte-research-reveals-inaction-on-climate-change-could-cost-the-world-economy-us-dollar-178-trillion-by-2070.html

Department of Census and Statistics (2022). Sri Lanka Labour Force Statistics: Quarterly Bulletin, First Quarter 2022. http://www.statistics.gov.lk/Resource/en/LabourForce/Bulletins/LFS_Q1_Bulletin_2022.pdf

Department of Environment and Natural Resources (2022). DENR Undertakes Creation of Natural Capital Accounting System. https://denr.gov.ph/news-events/denr-undertakes-creation-of-natural-capital-accounting-system/

DesInventar is a disaster information management system developed by UNDRR.It provides critical disaster-related data that includes historical losses, affected populations, and hazard-specific vulnerabilities.

Dr Sugathapala, Dr Yalegama Dr Manoj Ranaweera Ms Samanthi Senanayake, (2020), DRAFT National Policy and Strategy on Sustainable Development - https://www.switch-asia.eu/site/assets/files/2592/draft_national_policy_and_strategy_on_sustainable_development.pdf

Dunusinghe, P., (2020), Impact of ODA on Economic Growth and Development in Sri Lanka - https://sljass.sljol.info/articles/7157/files/submission/proof/7157-1-25242-1-10-20220721.pdf
E3G, (2022), Roadmap for progressing on loss and damage - https://www.e3g.org/publications/roadmap-for-progressing-on-loss-and-damage/

Economynext (2024), Sri Lanka and India negotiating on bilateral investment treaty: report - https://economynext.com/sri-lanka-and-india-negotiating-on-bilateral-investment-treaty-report-152175/

Economynext, (2024), Sri Lanka to begin free trade agreement negotiations with Malaysia- https://economynext.com/sri-lanka-to-begin-free-trade-agreement-negotiations-with-malaysia-167618/

Economynext, (2024), Sri Lanka, Bangladesh discuss FTA, agriculture modernization, ferry and private investment - https://economynext.com/sri-lanka-bangladesh-discuss-fta-agriculture-modernization-ferry-and-private-investment-167237/

European Commission (n.d.) International Carbon Market. https://climate.ec.europa.eu/eu-action/eu-emissions-trading-system-eu-ets/international-carbon-market_en

European Commission, (2023), Policy Framework and Implementation Strategies for Sri Lanka's Transition to a Net-Zero Economy - https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-andregions/srilanka_en#:~:text=From%2019%20May%202017%20Sri, products% 20including%20textiles%20and%20fisheries

European Union, (2021), Sri Lanka 2021 ODA Infographic - https://capacity4dev.europa.eu/library/sri-lanka-2021-oda-infographic_en

FAO (2024). Philippine Ecosystem and Natural Capital Accounting Systems (PENCAS) Act (Republic Act No. 11995). https://leap.unep.org/en/countries/ph/national-legislation/philippine-ecosystem-and-natural-capital-accounting-system-pencas

FAO, (2007), Guidelines "Good Agricultural Practices for Family Agriculture - https://www.fao.org/4/a1193e/a1193e00.pdf

FAO, (2018), Climate-Smart Agriculture: Case studies 2018 - https://openknowledge.fao.org/server/api/core/bitstreams/2231e34d-7573-4c1a-afb4-e9a5f01f31b6/content

FERDI & The World Bank & GFDRR & UKaid, (2015), Disaster Risk Financing and Insurance: Issues and results - https://ferdi.fr/dl/df-TYja9cVmPHPN9fs6q1zkbgwu/book-disaster-risk-financing-and-insurance-issues-and-results.pdf

GGGI (2024). GGGI and Sri Lanka's Ministry of Finance partner to Strengthen Carbon Trading Expertise. https://gggi.org/gggi-and-sri-lankas-ministry-of-finance-partner-to-strengthen-carbon-trading-expertise/

Government of Sri Lanka (2019, National Energy Policy and Strategies of Sri Lanka https://www.energy.gov.lk/images/resources/downloads/national-energy-policy-2019-en.pdf

GRITS (2025. What is a Green Revolving Fund? - https://www.gogrits.org/docs/grits-guide-for-green-revolving-funds/what-is-a-green-revolving-fund/

GSMA, (2019), Transformative IoT Beyond connectivity - https://www.gsma.com/solutions-and-impact/technologies/internet-of-things/wp-content/uploads/2019/09/Dialog-case-study-b.pdf

GSTC (2025) What is Sustainable Tourism? - https://www.gstcouncil.org/what-is-sustainable-tourism/

GSTC, What is Sustainable Tourism? - https://www.gstcouncil.org/what-is-sustainable-tourism/

H. A. C. D. Senavirathna, (2020), Existing Natural Disaster Risk Insurances In Sri Lanka - https://www.irjmets.com/uploadedfiles/paper/volume2/issue_8_august_2020/2907/1628083110.pdf

H.K.P.P. Kariyawasam, W.L.N. Wasana, and M.R.C.P. Wickramasinghe, (2023), Perspective of Protected Agriculture in Sri Lanka: A Review-https://www.researchgate.net/publication/369218237_Perspective_of_Protected_Agriculture_in_Sri_Lanka_A_Review

Hassam Bin Waseem, Irfan Ahmad Rana, Floods in Pakistan: A state-of-the-art review, Natural

Hazards Research, Volume 3, Issue 3 - https://www.sciencedirect.com/science/article/pii/S2666592123000641

Heinrich-Böll-Stiftung, (2023), The Loss and Damage Finance Landscape - https://us.boell.org/sites/default/files/2023-05/the_loss_and_damage_finance_landscape_hbf_ldc_15052023.pdf

High Commission of India, (2013), Handbook on the India-Sri Lanka Free Trade Agreement High Commission of India, Colombo, Sri Lanka March 2013 Handbook on the India-Sri Lanka Free Trade Agreement - https://www.cgihambantota.gov.in/docs/1584522873hb-india-sl.pdf https://www.wri.org/insights/cop28-outcomes-next-steps

IDDRI, (2023), A survey of existing funding streams related to Loss and Damage: positioning the future L&D fund - https://www.iddri.org/sites/default/files/PDF/Publications/Catalogue%20Iddri/D%C3%A9cryptage/202311-IB0623-L%20and%20D_1%20%281%29.pdf

IDDRI, (2023), Financing loss and damage: Overview of tax/levy instruments under discussion - https://www.iddri.org/en/publications-and-events/note/financing-loss-and-damage-overview-taxlevy-instruments-under

IDFC. (2023). Common Principles for Climate Change Adaptation Finance Tracking. https://www.idfc.org/wp-content/uploads/2023/11/idfc-2023-common-principles-adaptation.pdf

IEA (2022), Energy system of Sri Lanka - https://www.iea.org/countries/sri-lanka

IEA, (2024), Unlocking Smart Grid Opportunities in Emerging Markets and Developing Economies - https://www.iea.org/reports/unlocking-smart-grid-opportunities-in-emerging-markets-and-developing-economies/executive-summary

IFC (2019), DARP—Creating Distressed Assets Markets - https://ppp.worldbank.org/public-private-partnership/sites/ppp.worldbank.org/files/2022-03/201910-Distressed-Assets-Recovery-Program.pdf

IFC (2022), Green Bond Handbook: A Step-By-Step Guide To Issuing A Green Bond - https://www.ifc.org/content/dam/ifc/doc/mgrt/202203-ifc-green-bond-handbook.pdf

IFC (2023), Boost to Sri Lankan Economy with IFC Providing Financing of up to $400 Million to Banks to Ensure Essential Imports - https://www.ifc.org/en/pressroom/2023/boost-to-sri-lankan-economy-with-ifc-providing-financing-of-up-to-400-million-to-banks-to-ensure-essential-imports

IFPI (2024), Sri Lanka's New Fertilizer Cash Grant (FCG) Scheme for paddy - https://cgspace.cgiar.org/server/api/core/bitstreams/134364c2-2a79-4487-b7a0-61ae2bf4db5a/content

IIED & UNDP, (2024), Taxonomy of climate attributable loss and damage and scalable responses related to DRR, health and human mobility - https://www.undp.org/asia-pacific/publications/taxonomy-climate-attributable-loss-and-damage-and-scalable-responses-related-drr-health-and-human-mobility

IMF (2024), Sovereign Green Bonds: A Catalyst for Sustainable Debt Market Development? - https://www.imf.org/en/Publications/WP/Issues/2024/06/14/Sovereign-Green-Bonds-A-Catalyst-for-Sustainable-Debt-Market-Development-550527

IMF, (2023), Coping with Natural Disaster Risks in Sri Lanka - https://www.elibrary.imf.org/downloadpdf/journals/002/2018/176/article-A003-en.xml

IMF, (2023), Emerging Economies Need Much More Private Financing for Climate Transition - https://www.imf.org/en/Blogs/Articles/2023/10/02/emerging-economies-need-much-more-private-financing-for-climate-transition

IMF, (2023), Press Release No. 23/346 - https://www.imf.org/en/News/Articles/2023/10/11/pr23346-jamaica-working-international-financial-institutions-following-rsf-arr-imf

IMF, (2024), Sovereign Green Bonds: A Catalyst for Sustainable Debt Market Development? - https://www.imf.org/en/Publications/WP/Issues/2024/06/14/Sovereign-Green-Bonds-A-Catalyst-for-Sustainable-Debt-Market-Development-550527

Insight Into Impact, (2021), The Five Dimensions of Impact. Linking measurement, management, and the sustainability process - https://insightintoimpact.com.au/esg/the-five-dimensions-of-impact-linking-measurement-management-and-the-sustainability-process/

InsuranceBusiness (2025). Global insurance protection gap reaches estimated £1.4 trillion.https://www.insurancebusinessmag.com/asia/news/breaking-news/global-insurance-protection-gap-reaches-estimated-1-4-trillion-527717.aspx

International Energy Agency (IEA), (2024), Unlocking Smart Grid Opportunities in Emerging Markets and Developing Economies - https://iea.blob.core.windows.net/assets/5d97b28a-ca5f-46a5-a194-2c13fd6e4aad/UnlockingSmartGridOpportunitiesinEmergingMarketsandDevelopingEconomies.pdf

IPCC (2022), Climate Change 2022: Mitigation of Climate Change - https://www.ipcc.ch/report/ar6/wg3/downloads/report/IPCC_AR6_WGIII_TechnicalSummary.pdf

IPCC, (2022), Climate Change 2022: Mitigation of Climate Change - https://www.ipcc.ch/report/ar6/wg3/downloads/report/IPCC_AR6_WGIII_TechnicalSummary.pdf

IPCC, (2023), Climate Change 2023 Synthesis Report - https://www.ipcc.ch/report/ar6/syr/downloads/report/IPCC_AR6_SYR_LongerReport.pdf

IPCC, Sixth Assessment Report: Working Group III: Mitigation of Climate Change - https://www.ipcc.ch/report/ar6/wg3/chapter/chapter-15/

IPCC, Sixth Assessment Report: Working Group III: Mitigation of Climate Change - https://www.ipcc.ch/report/ar6/wg3/downloads/report/IPCC_AR6_WGIII_Chapter15.pdf

Joe Indvik; Robert Foley; Mark Orlowski (2015), Green Revolving Funds: A Guide to Implementation & Management - https://greenbillion.org/wp-content/uploads/2015/07/GRF_Full_Implementation_Guide.pdf

Joe Indvik; Robert Foley; Mark Orlowski, (2015), Green Revolving Funds: A Guide to Implementation & Management - https://greenbillion.org/wp-content/uploads/2015/07/GRF_Full_Implementation_Guide.pdf

Lakshman Kadirgamar Institute (LKI), (2022), COP26 Climate Summit and Sri Lanka's Promise for Action - https://lki.lk/publication/cop26-climate-summit-and-sri-lankas-promise-for-action/

Lankaexplorer, Entrance Fees for Popular Tourist Sites in Sri Lanka - https://www.lankaexplorer.net/entrance-fees/

LMA (2018), Green Loan Principles: Supporting environmentally sustainable economic activity - https://www.lma.eu.com/application/files/9115/4452/5458/741_LM_Green_Loan_Principles_Booklet_V8.pdf

LNW, (2023), National Policy for Industrial Development to be implemented soon - https://lankanewsweb.net/archives/44932/national-policy-for-industrial-development-to-be-implemented-soon/#google_vignette

Loan Market Association (LMA), (2018), Green Loan Principles: Supporting environmentally sustainable economic activity - https://www.lma.eu.com/application/files/9115/4452/5458/741_LM_Green_Loan_Principles_Booklet_V8.pdf

MF, Government of Sri Lanka, (2018), Framework Development And Infrastructure Financing To Support Public Private Partnerships - https://documents1.worldbank.org/curated/en/972591525333833635/pdf/SFG4315-EA-REVISED-PUBLIC-disclosed-7-24-18.pdf?_gl=1*pvtqw0*_gcl_au*NDAyODg5MTgxLjE3MjI0MzM0Mzc.

MF, Government of Sri Lanka, (2018), Framework Development And Infrastructure Financing To Support Public Private Partnerships - https://documents1.worldbank.org/curated/en/972591525333833635/pdf/SFG4315-EA-REVISED-PUBLIC-disclosed-7-24-18.pdf?_gl=1*pvtqw0*_gcl_au*NDAyODg5MTgxLjE3MjI0MzM0Mzc.

Minamata Convention on Mercury, (2023), 2023 Short Reports of the Minamata Convention on Mercury - https://minamataconvention.org/sites/default/files/documents/national_report/Report_Sri-Lanka_2023_English.pdf

Ministry of Environment Sri Lanka, (2020), National Policy on Waste Management -https://www.env.gov.lk/web/images/pdf/policies/National_Policy_on_Waste_Management_English.pdf

Ministry of Environment, (2022), National Environment Policy - https://env.gov.lk/web/images/pdf/policies/National_Environment_Policy_-_English.pdf

Ministry of National Policies and Economic Affairs, Ministry of Disaster Management (2016). Sri Lanka

Ministry of Technology (2024), National Digital Economy Strategy 2030 - https://mot.gov.lk/assets/files/National%20Digital%20Economy%20Strategy%202030%20Sri%20Lanka-bc77184e0b6035d235cd0bb1ebf75707.pdf

Ministry of Technology, (2024), National Digital Economy Strategy 2030 - https://mot.gov.lk/assets/files/National%20Digital%20Economy%20Strategy%202030%20Sri%20Lanka-bc77184e0b6035d235cd0bb1ebf75707.pdf

Morten Broberg, (2020), State of Climate Law: The Third Pillar of International Climate Change Law: Explaining 'Loss and Damage' after the Paris Agreement - https://brill.com/downloadpdf/view/journals/clla/10/2/article-p211_211.pdf

MSCI (2023), How Sovereigns Have Changed the Green-Bond Market - https://www.msci.com/www/blog-posts/how-sovereigns-have-changed-the/03778801668

MSCI, (2023), How Sovereigns Have Changed the Green-Bond Market - https://www.msci.com/www/blog-posts/how-sovereigns-have-changed-the/03778801668

OECD (2013), The Evolution of Official Development Assistance: Achievements, Criticisms and a Way Forward - https://www.oecd-ilibrary.org/docserver/5k3v1dv3f024-en.pdf?expires=1726491336&id=id&accname=guest&checksum=E737BE565C3528BBF27C77127DA1724E

OECD (2021), De-risking institutional investment in green infrastructure - https://www.oecd.org/en/publications/de-risking-institutional-investment-in-green-infrastructure_357c027e-en.html

OECD, (2013), The Evolution of Official Development Assistance: Achievements, Criticisms and a Way Forward - https://www.oecd-ilibrary.org/docserver/5k3v1dv3f024-en.pdf?expires=1726491336&id=id&accname=guest&checksum=E737BE565C3528BBF27C77127DA1724E

Office of the President of the Philippines (2024). PBBM signs law for accounting of PH natural resources. https://pco.gov.ph/news_releases/pbbm-signs-law-for-accounting-of-ph-natural-resources/

Owen, N. (2022). Belize: Swapping Debt for Nature. https://www.imf.org/en/News/Articles/2022/05/03/CF-Belize-swapping-debt-for-nature

Post-Disaster Needs Assessment: Floods and Landslides-May 2016.

Post-Disaster Needs Assessment: Floods and Landslides-May 2017.

Precilla, R., DOST-PCAARRD (2024). DOST-PCAARRD and UPLB lead collaborative effort for localized natural capital accounting. https://www.pcaarrd.dost.gov.ph/index.php/quick-information-dispatch-qid-articles/dost-pcaarrd-and-uplb-lead-collaborative-effort-for-localized-natural-capital-accounting

Public Finance, Eyeing Green Bonds, Sri Lanka State FinMin takes part at WB Biodiversity Financing forum - https://publicfinance.lk/en/topics/eyeing-green-bonds-sri-lanka-state-finmin-takes-part-at-wb-biodiversity-financing-forum-1713323825

Public-Private Partnership Resource Center (PPPRC), PPP Knowledge Lab - https://ppp.worldbank.org/public-private-partnership/ppp-knowledge-lab

Rajapaksha, E.G.L.S., Rathnayake, U. and Karunarathna, A.S.W., (2024), Feasibility assessment of smart grid technology for the Sri Lankan urban areas - https://ciobwcs.com/downloads/papers24/S16055.pdf

Republika NG Pilipinas, Philippine Statistics Authority, Department of Environment and Natural Resources (2024). Roadmap to Institutionalize Natural Capital Accounting in the Philippines. https://lpr.adb.org/sites/default/files/2024-07/philippines-natural-capital-accounting-roadmap.pdf

SBTi, (2023), Monitoring Report 2022: Looking back at 2022 and moving forward to 2023 and beyond - https://sciencebasedtargets.org/resources/files/SBTiMonitoringReport2022.pdf

Shaumya, K. and Arulrajah, Anthonypillai, (2016), Measuring Green Banking Practices: Evidence from Sri Lanka - https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2909735

Sindra Sharma-Khushal , Liane Schalatek , Harjeet Singh and Heidi White, (2021), The Loss and Damage Finance Facility Why and How - https://us.boell.org/en/2022/05/31/loss-and-damage-finance-facility-why-and-how

SLTDA (2023), Year In Review - https://www.sltda.gov.lk/storage/common_media/YearInReview2023Latest-2024-06-26.pdf

SLTDA (20243) Year In Review - https://www.sltda.gov.lk/storage/common_media/Year_In_Review_2024_Final_2024_Jan-Dec1.pdfhttps://www.sltda.gov.lk/storage/common_media/YearInReview2023Latest-2024-06-26.pdf

Solidaridad (2024), Sustainable tourism in Sri Lanka gets a boost from responsible practices project - https://www.solidaridadnetwork.org/news/sustainable-tourism-in-sri-lanka-gets-a-boost-from-responsible-practices-project/

Soutar, R., Koop, F. (2021). Explainer: What are debt-for-nature swaps? https://dialogue.earth/en/nature/47862-explainer-what-is-debt-for-nature-swap/

Southeast Asia Development Solutions (2024). Measure What You Treasure: Advancing Natural Capital Accounting in the Philippines. https://seads.adb.org/articles/measure-what-you-treasure-advancing-natural-capital-accounting-philippines

Springer Link, (2024), Policy Framework and Implementation Strategies for Sri Lanka's Transition to a Net-Zero Economy - https://link.springer.com/chapter/10.1007/978-3-031-55779-8_3

Sri Lanka Climate Fund (2021). Sri Lanka Carbon Crediting Scheme. https://www.climatefund.lk/slccs.html

Sri Lanka Climate Fund (2025), Sri Lanka Carbon Crediting Scheme - https://www.climatefund.lk/slccs.html

Sri Lanka Sustainable Energy Authority (2025), Sooriyabala Sangaramaya (Battle for Solar Energy) - https://www.energy.gov.lk/en/soorya-bala-sangramaya

Sri Lanka Sustainable Energy Authority, (2021), Energy Efficiency Building Code of Sri Lanka - https://www.energy.gov.lk/images/resources/downloads/energy-efficiency-building-code.pdf

Sri Lanka Tourism Development Authority (SLTDA), (2023), Year In Review - https://www.sltda.gov.lk/storage/common_media/YearInReview2023Latest-2024-06-26.pdf

Sri Lanka Water Board (2024). Assessment of water sources and impact of climate change in Sri Lanka. https://knowledge.unicef.org/resource/assessment-water-sources-and-impact-climate-change-sri-lanka-2

Standard Chartered (2024), Adaptation Economy - https://standardcharteredbank.turtl.co/story/the-adaptation-economy/page/4/1

Standard Chartered (2024). The Adaptation Economy. - https://standardcharteredbank.turtl.co/story/the-adaptation-economy/page/6/2

Standard Chartered Bank (2023), The Adaptation Economy [Online]. Available at: https://www.sc.com/en/campaigns/adaptation-economy/

Standard Chartered, Part one: The cost of inaction - https://standardcharteredbank.turtl.co/story/the-adaptation-economy/page/4/1

Standard Chartered, Part three: The view of the global financial sector - https://standardcharteredbank.turtl.co/story/the-adaptation-economy/page/6/2

Sunday Observer, (2024), Sri Lanka-Thailand FTA to be implemented from Jan. 1, 2025 - https://www.sundayobserver.lk/2024/09/15/business/32690/sri-lanka-thailand-fta-to-be-implemented-from-jan-1-2025/

Sungida Rashid, Mizan R. Khan, Nabil Haque, (2023), Does climate finance enhance mitigation ambitions of recipient countries?, Earth System Governance, Volume 17 - https://www.sciencedirect.com/science/article/pii/S2589811623000253

SVV (2024), Affordable natural perils insurance thanks to the ES pool - https://www.svv.ch/en/insurance/property-and-casualty-insurance/natural-perils-insurance/affordable-natural-perils

SVV, (2024), Affordable natural perils insurance thanks to the ES pool - https://www.svv.ch/en/insurance/property-and-casualty-insurance/natural-perils-insurance/affordable-natural-perils

TCFD, Recommended Disclosures - https://www.tcfdhub.org/metrics-and-targets/
The Adaptation & Resilience Investors Collaborative (ARIC) Investment Approaches & Vehicles Working Group identified

The Climate Damages Tax, (2024), A guide to what it is and how it works - https://us.boell.org/sites/default/files/2024-04/cdt_guide_2024_0.pdf

The Economist, (2021), The private sector starts to invest in climate adaptation - https://www.economist.com/finance-and-economics/2021/07/24/the-private-sector-starts-to-invest-in-climate-adaptation

The Edge Malaysia, (2024), Sri Lanka plans to sign trade deal with Indonesia in March 2025- https://theedgemalaysia.com/node/721879

The Pakistan Business Council, (2015), An Assessment of the Pakistan-Sri Lanka Free Trade Agreement - https://www.pbc.org.pk/wp-content/uploads/An-Assessment-of-the-Pakistan-Sri-Lanka-Free-Trade-Agreement.pdf

The Straits Times, (2024), Sri Lanka to scrap state-owned fossil fuel vehicles by 2025 - https://www.straitstimes.com/asia/south-asia/sri-lanka-to-scrap-state-owned-fossil-fuel-vehicles-by-2025

The World Bank Group, (2022), 10 Things You Should Know About the World Bank Group's Climate Finance - https://www.worldbank.org/en/news/factsheet/2022/09/30/10-things-you-should-know-about-the-world-bank-group-s-climate-finance

The World Bank, (2022), Creating Markets in Sri Lanka - https://www.ifc.org/content/dam/ifc/doc/mgrt/sri-lanka-cpsd-full-report-final.pdf

The World Bank, (2023), Common Principles for Climate Mitigation Finance Tracking - https://documents1.worldbank.org/curated/en/514141645722484314/pdf/Common-Principles-for-Climate-Mitigation-Finance-Tracking.pdf

The World Bank, (2024), Sri Lanka - Country Partnership Framework for the Period FY2024 - FY2027 - https://documents.worldbank.org/en/publication/documents-reports/documentdetail/099060523101512718/BOSIB0abb778e20650b1540d16634cb4fb1

The World Bank, Disaster Risk Financing and Insurance (DRFI) Program - https://www.worldbank.org/en/programs/disaster-risk-financing-and-insurance-program
BBVA (20212025), What You Need to Know About Green Loans - https://www.bbvacib.com/green-

and-sustainability-linked-loan-newsletter/#:~:text=The%20sustainable%20loan%20market%20demonstrated,the%20total%20sustainable%20loan%20volume.https://www.worldbank.org/en/news/feature/2021/10/04/what-you-need-to-know-about-green-loans

Trading Economics, Sri Lanka - Net Official Development Assistance And Official Aid Received - https://tradingeconomics.com/sri-lanka/net-official-development-assistance-and-official-aid-received-us-dollar-wb-data.html

UCL (2023), New global projections highlight 'enormous human cost' to climate inaction - https://www.ucl.ac.uk/news/2023/nov/new-global-projections-highlight-enormous-human-cost-climate-inaction

UCL, (2023), New global projections highlight 'enormous human cost' to climate inaction - https://www.ucl.ac.uk/news/2023/nov/new-global-projections-highlight-enormous-human-cost-climate-inaction

UN (2021), Ecosystem Accounting - https://seea.un.org/ecosystem-accounting

UN (2025) 2.a Montreal Protocol on Substances that Deplete the Ozone Layer- https://treaties.un.org/Pages/ViewDetails.aspx?src=TREATY&mtdsg_no=XXVII-2-a&chapter=27&clang=_en

UN (2025), 12. United Nations Convention against Transnational Organized Crime - https://treaties.un.org/pages/ViewDetails.aspx?src=TREATY&mtdsg_no=XVIII-12&chapter=18&clang=_en

UN (2025), 14.United Nations Convention against Corruption - https://treaties.un.org/pages/ViewDetails.aspx?src=TREATY&mtdsg_no=XVIII-14&chapter=18&clang=_en

UN, (2015), Paris Agreement - https://unfccc.int/sites/default/files/english_paris_agreement.pdf

UN, (2021), System of Environmental-Economic Accounting: Ecosystem Accounting - https://seea.un.org/sites/seea.un.org/files/documents/EA/seea_ea_white_cover_final.pdf

UNCCD (2017). Final Country Report of the Land Degradation Neutrality Target Setting Programme in Sri Lanka. -https://www.unccd.int/sites/default/files/ldn_targets/Sri%20Lanka%20LDN%20TSP%20Country%20Report.pdf

UNDP (2023), Driving sustainable Investment: The Crucial role of Sustainable Finance and Private Capital for Sri Lanka - https://www.undp.org/srilanka/press-releases/driving-sustainable-investment-crucial-role-sustainable-finance-and-private-capital-sri-lanka

UNDP, (2019), UNDP Support to ODA Systems - https://www.undp.org/eurasia/publications/undp-support-oda-management-systems

UNDP, (2024), Insurance and Risk Finance Facility - General Overview 2024 - https://irff.undp.org/factsheets/insurance-and-risk-finance-facility-general-overview-2024

UNDP, (2024), Taxonomy of climate-attributable loss and damage and scalable responses related to DRR, health and human mobility - https://www.undp.org/asia-pacific/publications/taxonomy-climate-attributable-loss-and-damage-and-scalable-responses-related-drr-health-and-human-mobility

UNDRR (2025). Disaster Risk Reduction in Least Developed Countries. https://www.undrr.org/implementing-sendai-framework/sendai-framework-action/disaster-risk-reduction-least-developed-countries#:~:text=LDCs%20have%20experienced%20nearly%2070,(UNDRR%20GAR%2C%202022).

UNDRR (n.d.) DesInventar. https://www.desinventar.net/

UNDRR, (2022), Global Assessment Report on Disaster Risk Reduction (GAR) - https://www.undrr.org/media/79595/download?startDownload=20240809

UNEP (2023). Adaptation Gap Report 2023 - https://www.unep.org/resources/adaptation-gap-report-2023

UNEP (2025), About Montreal Protocol -https://www.unep.org/ozonaction/who-we-are/about-montreal-protocol#:~:text=The%20Montreal%20Protocol%20on%20Substances,ozone%20depleting%20substances%20(ODS).

UNEP, (2023), About Loss and damage - https://www.unep.org/topics/climate-action/loss-and-damage/about-loss-and-damage

UNEP. (2023). Adaptation Gap Report 2023. https://www.unep.org/resources/adaptation-gap-report-2023

UNESCAP (2023), Accelerating Sustainable Finance Through Private Sector Participation - https://www.unescap.org/sites/default/d8files/event-documents/Session1_Intro_Sus_Fin_ESCAP.pdf

UNFCCC, (2016), Financing Options for Loss and Damage: A Review and Roadmap - https://unfccc.int/files/adaptation/groups_committees/loss_and_damage_executive_committee/application/pdf/browncdl-icccadfinancinglossanddamagepaperdraft.pdf

UNFCCC, (2024), From Billions to Trillions: Setting a New Goal on Climate Finance- https://unfccc.int/news/from-billions-to-trillions-setting-a-new-goal-on-climate-finance

UNFCCC, (2024), Loss and Damage - https://unfccc.int/sites/default/files/resource/loss_and_damage_online_guide.pdf

UNFCCC, Fund for responding to Loss and Damage - https://unfccc.int/loss-and-damage-fund-joint-interim-secretariat

UNFCCC (2025), Warsaw International Mechanism for Loss and Damage associated with Climate Change Impacts https://unfccc.int/topics/adaptation-and-resilience/workstreams/loss-and-damage/warsaw-international-mechanism

University of Zurich (2023), State of Blended Finance 2023. Available at https://www.convergence.finance/resource/state-of-blended-finance-2023/view

US (2024), 2024 Investment Climate Statements: Sri Lanka - https://www.state.gov/reports/2024-investment-climate-statements/srilanka/

US Department of State, (2024), 2024 Investment Climate Statements: Sri Lanka - https://www.state.gov/reports/2024-investment-climate-statements/srilanka/

Wedawatta, G., Wanigarathna, N., Vijekumara, A. (2023). Macro-level insurance for financing post-disaster recovery: The case of National Disaster Insurance Policy in Sri Lanka. DOI:10.58567/cef01010002

WEF, (2018), How technology is leading us to new climate change solutions - https://www.weforum.org/agenda/2018/08/how-technology-is-driving-new-environmental-solutions/

World Bank Group (2025) World Bank Group Guarantees deliver efficiency and boost impact - https://www.miga.org/

World Bank Group, Climate Toolkits for Infrastructure PPPs - https://www.worldbank.org/en/topic/sustainableinfrastructurefinance/brief/climate-toolkits-for-infrastructure-ppps

World Bank Group, Sri Lanka - Country Partnership Framework for the Period FY2024 - FY2027 (English) -https://documents.worldbank.org/en/publication/documents-reports/documentdetail/099060523101512718/BOSIB0abb778e20650b1540d16634cb4fb1

WRI (2023). Mobilizing Private Investment in Climate Solutions: De-risking Strategies of Multilateral Development Banks. https://www.wri.org/research/mobilizing-private-investment-climate-solutions-mdbs

WRI, (2024), What Is 'Loss and Damage' from Climate Change? 8 Key Questions, Answered - https://www.wri.org/insights/loss-damage-climate-change