

ESG, Climate Action and Sustainable Finance for Global Competitiveness: Opportunities for Sri Lankan Businesses

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Venue: Ceylon Chamber of Commerce

Background and Context

An Executive Roundtable Conference on "Advancing Sustainability Readiness: IFRS Reporting, Sustainable Finance and Carbon Markets" was convened to facilitate dialogue among stakeholders from the private sector, financial institutions, sustainability practitioners, policy-related organisations and regulatory agencies on the evolving sustainability landscape and its implications for Sri Lankan businesses.

The discussions were centered on the growing importance of sustainability, environmental, social and governance (ESG) considerations, climate-related disclosures, sustainable finance mechanisms, and carbon market opportunities. It provided a platform through which emerging regulatory developments, financing opportunities, implementation challenges, and readiness requirements were examined from both national and international perspectives. Attention was given to the introduction of sustainability disclosure standards such as IFRS S1 and S2, the expansion of sustainable finance ecosystems, and Sri Lanka's preparedness to participate in international carbon markets.

It was emphasised that sustainability is no longer viewed merely as a corporate responsibility initiative. Instead, it is increasingly being recognised as a strategic requirement influencing market access, investor confidence, access to capital, supply chain participation, and long-term competitiveness. Sri Lankan businesses are encouraged to proactively strengthen their sustainability readiness in anticipation of evolving stakeholder expectations and regulatory requirements.

Advancing Sustainability Readiness in Sri Lanka

The keynote address highlighted the rapid transformation of the global sustainability landscape and the growing integration of sustainability considerations into business decision-making processes. It was observed that investors, regulators, lenders, customers, and communities are increasingly seeking evidence of how organisations manage climate risks, governance practices, human capital, and sustainability-related opportunities. As a result, sustainability information is becoming as important as traditional financial information in assessing organisational performance and resilience.

Emphasis was placed on the increasing regulatory requirements emerging across global markets, especially within the European Union and other developed economies. It was noted that businesses are now expected to demonstrate transparency regarding supply chain practices, emissions management, resource utilisation, governance structures, and sustainability-related risks. These developments were identified as being especially significant for Sri Lankan exporters and organisations that participate in global value chains.

Considerable attention was given to the implementation of IFRS S1 and IFRS S2 Sustainability Disclosure Standards, which were described as an important milestone in establishing globally consistent sustainability reporting requirements. The phased implementation of the corresponding Sri Lankan standards, SLFRS S1 and SLFRS S2, was presented as a significant step toward improving transparency, strengthening governance practices, enhancing investor

confidence, and improving the competitiveness of Sri Lankan businesses. It was stressed that sustainability reporting should not be viewed solely as a compliance obligation but rather as a strategic mechanism for value creation and risk management.

The progress achieved within Sri Lanka's sustainable finance ecosystem was also recognised. The contributions of the Central Bank of Sri Lanka through the Sustainable Finance Roadmap and the Green Finance Taxonomy were acknowledged as critical developments that have provided direction to sustainable finance initiatives within the country. Reference was made to the country's broader commitments, including the Nationally Determined Contributions, the Carbon Net Zero 2050 Roadmap, renewable energy ambitions, and climate resilience objectives.

Sustainable Finance: Progress, Opportunities and Market Developments

the discussions also highlighted that growing importance of sustainable finance as a mechanism for addressing climate challenges while mobilising capital for sustainable development. It was noted that Sri Lanka is expected to require approximately USD 10.85 billion in climate-related financing by 2030, while climate-related losses continue to create economic pressures. Against this backdrop, sustainable finance instruments were presented as important tools for mobilising private capital and strengthening long-term resilience.

The evolution of sustainable finance within Sri Lanka was outlined as a progressive journey moving from awareness creation toward implementation. Significant milestones were identified, including the development of the Sustainable Finance Roadmap, the establishment of the Green Finance Taxonomy, increasing emphasis on environmental and social risk management, the adoption of sustainability disclosure standards, and the advancement of carbon market readiness initiatives.

The four pillars of the Sustainable Finance Roadmap 2.0 were discussed, namely financing sustainable development, environmental and social risk management, reporting and disclosure, and governance and coordination. These pillars are the foundation of a system-wide sustainability architecture intended to guide financial institutions and market participants in supporting sustainable economic development.

Examples of sustainable finance transactions were presented to demonstrate the growing maturity of the market. Benchmark issuances by institutions such as DFCC Bank and Alliance Finance were brought as examples of how green and social bonds can be utilised to mobilise capital for renewable energy, financial inclusion, climate-positive projects, and sustainable development initiatives. Local and as well as regional examples further demonstrated how strong sustainability positioning can facilitate access to larger pools of international ESG-focused capital.

A particularly noteworthy case study was presented on Alliance Finance, where strong ESG governance, sustainability disclosures, external validation, and long-term sustainability commitments are shown to have enhanced investor confidence and enabled access to development finance. The example illustrated how sustainability performance can be translated into tangible financial outcomes and long-term institutional value.

Sustainability Reporting and Disclosure Readiness

The implementation of SLFRS S1 and SLFRS S2 was identified as a major development in Sri Lanka's sustainability journey. It was explained that these standards are intended to establish a framework for the disclosure of sustainability-related financial information that may affect an organisation's financial prospects, access to capital, and long-term resilience.

The phased implementation timeline was presented, beginning with the top 100 listed companies and gradually extending to all listed entities and larger non-listed entities. It was also noted that sustainability reporting requirements are expected to be progressively introduced for Tier 2 and Tier 3 companies over time, allowing organizations to build the necessary governance structures, reporting systems, and technical capacity. The standards require disclosures relating to governance, strategy, risk management, metrics, and targets, while climate-specific disclosures under SLFRS S2 include greenhouse gas emissions reporting and climate-related performance metrics.

The significance of adopting these standards, enhanced transparency, improved investor confidence, stronger risk management processes, alignment with globally accepted reporting frameworks, and improved access to capital are identified as key benefits. Robust sustainability disclosures will increasingly become a prerequisite for engaging with international investors, lending institutions, customers, and trading partners.

It was further noted that the process of compliance extends well beyond reporting requirements. Readiness activities involving governance integration, greenhouse gas inventorisation, materiality assessments, climate risk analysis, internal data systems, and capacity building were highlighted as critical success factors.

Carbon Markets and Emerging Climate Finance Opportunities

The evolution of carbon markets from the Clean Development Mechanism era toward voluntary carbon markets and emerging Article 6 mechanisms under the Paris Agreement was reviewed. It was highlighted that Sri Lanka has already established several institutional foundations necessary for participation in carbon markets, including the Sri Lanka Carbon Crediting Scheme and the Sri Lanka Climate Fund.

The potential of Article 6 mechanisms to transform climate outcomes into tradable carbon assets and climate finance inflows was examined in detail. Renewable energy projects, mangrove restoration initiatives, forestry activities, and waste management projects were identified as sectors capable of generating measurable emissions reductions and attracting international buyers, climate funds, and corporate investors.

During the discussion session, it was repeatedly emphasised that opportunities are currently being constrained by delays in policy implementation. It was observed that while technical and institutional infrastructure has largely been established, progress on the national carbon trading policy and Article 6 implementation framework has remained slow. Concerns were expressed that substantial international financing opportunities from governments and institutions in Europe, Japan, and India may remain inaccessible until the necessary policy frameworks are operationalised.

Updates were shared regarding ongoing efforts related to the Nationally Determined Contributions (NDC 3.0), the National Carbon Trading Framework, and stakeholder consultations being facilitated through the Climate Action Committee and the Ministry of Environment. Positive

engagement between government agencies and private sector stakeholders was reported, although participants stressed the importance of maintaining momentum in implementation.

Key Issues from the Discussion

- A recurring observation was that sustainable finance opportunities are available, but **project readiness remains a critical challenge**. Participants emphasised that commercial viability, governance structures, reporting practices, transparency, and institutional credibility continue to influence financing decisions alongside sustainability credentials. It was noted that projects seeking sustainable finance must demonstrate both environmental impact and financial viability.
- The **limited pipeline of investment-ready green projects** was highlighted by representatives from the financial sector. While funding has been raised through sustainable finance instruments, **challenges were reported in identifying enough qualifying projects capable of absorbing available capital**. Currency risk and investor expectations regarding ESG frameworks were also identified as barriers affecting the scaling of sustainable finance initiatives.
- Awareness of climate-related risks has increased significantly; however, methodologies and frameworks for translating these risks into measurable financial impacts are still evolving. **Strong governance structures, reliable data systems, and robust reporting processes were identified as prerequisites for effective climate-risk management**.
- Attention was also drawn to the **need for enhanced awareness among borrowers and businesses regarding sustainable finance concepts**. Concerns were raised that many borrowers remain unfamiliar with green finance, climate finance, adaptation financing, and sustainability-linked investment opportunities. **It was suggested that greater education and outreach efforts will be required to stimulate demand and facilitate broader participation in sustainable finance mechanisms**.
- Additionally, it was reemphasized that small and medium-sized enterprises are not left behind as sustainability reporting and financing requirements become more stringent. It was suggested that **national policies, private-sector strategies, and capacity-building initiatives should be designed through consultative processes that consider the needs of all stakeholders**.

Key Takeaways for the Private Sector

- **The implementation of SLFRS S1 and SLFRS S2 requires organisations to strengthen internal systems and governance structures**. Sustainability reporting should be supported by reliable data collection processes, board oversight, materiality assessments, climate-risk management frameworks, and measurable sustainability targets.
- **Climate-risk identification should be treated as an organisational priority**. It was noted that many businesses have recognised the existence of climate-related risks; however, greater emphasis is now required on quantifying these risks, assessing their financial implications, and integrating them into business planning and risk management processes.
- Sustainable finance opportunities are expanding, but project readiness remains critical. **Access to green bonds, sustainability-linked financing, development finance, and climate-related funding is largely dependent on the commercial viability of projects, the quality of governance arrangements, and the credibility of reporting and monitoring mechanisms**.

- **Carbon markets represent a potentially significant source of future climate finance for Sri Lankan businesses.** Renewable energy, forestry, mangrove restoration, agriculture, and waste management projects were identified as sectors that could benefit from emerging carbon market opportunities, particularly under Article 6 mechanisms.
- **Private-sector engagement in policy development and implementation was identified as essential.** A consultative approach involving businesses, industry associations, financial institutions, and government agencies was considered necessary to ensure that regulations and market mechanisms are practical, effective, and supportive of economic growth.
- **Awareness and capacity-building efforts should be expanded across the private sector.** While sustainability concepts are gaining traction among larger organisations, greater efforts are required to enhance understanding of sustainable finance, climate finance, adaptation finance, and ESG reporting requirements, particularly among SMEs.

Conclusion

The roundtable demonstrated that sustainability is increasingly becoming a central component of competitiveness, investment attractiveness, risk management, and long-term business success. Significant progress has already been made in Sri Lanka through the development of sustainable finance frameworks, the introduction of sustainability reporting standards, the establishment of carbon market infrastructure, and the strengthening of institutional capacity.

At the same time, it was recognised that substantial work remains to be undertaken to strengthen readiness across both the public and private sectors. **Enhanced policy implementation, increased stakeholder awareness, improved project preparation, stronger governance systems, and expanded technical capacity were identified as essential enablers for unlocking the full potential of sustainable finance and carbon markets.**