ACCELERATING INDUSTRIES' CLIMATE RESPONSE
SRI LANKA

FACTSHEET

Improving climate finance for Sri Lankan industries

Imported fossil fuels currently supply around half of Sri Lanka's energy demand. This has resulted in challenging cost rises for many businesses in recent years. Sri Lanka is also experiencing the worst effects of climate change. These factors combined mean the need to move to renewable energy and reduce energy waste has never been greater.

To build the energy security needed for Sri Lanka's economy to thrive and to reduce emissions, the Sri Lankan government has pledged that 70 per cent of energy in the country will come from renewable sources by 2030.[1] As part of this, Sri Lankan industries must reduce their fossil fuel use so that industrial emissions fall by 7 per cent.[2]

The cost and environmental benefits for industrial decarbonization are clear. But one of the biggest barriers businesses face is how much transitioning to renewables and implementing energy efficiency measures can cost. Many Sri Lankan businesses find that decarbonization technologies and expertise are too expensive. There is also a lack of affordable climate loans or other financial incentives to enable them to make the investments they need to move away from fossil fuels.

The assessment

In 2023, UNIDO and Econoler undertook a land-scape analysis to assess the current industrial decarbonization financing situation in Sri Lanka and the challenges, obstacles and barriers that are preventing further scaling up.

This analysis focused on textiles and apparel, food and beverages, rubber and plastics as these are the industrial sectors that have the highest environmental and economic impact in Sri Lanka. However, financing needs and challenges are broadly similar across all subsectors, which means its findings are relevant to all Sri Lankan industrial businesses.

The landscape analysis looked into the economic situation in Sri Lanka and its financial sector plus key decarbonization policies and financing options in Sri Lanka. Stakeholder consultations were also conducted with 20 policymakers, financial institutions and representatives from small, medium and large industrial companies from the three identified sectors including:

- Ministry of Environment
- Sustainable Energy Authority
- Ministry of Power and Energy
- Ministry of Industries
- Ministry of Finance
- Public Utilities Commission of Sri Lanka
- Board of Investment
- Central Bank of Sri Lanka

- NDB Bank
- Commercial Bank
- Sampath Bank
- DFCC Bank
- Bank of Ceylon
- HNB Bank

- Bogawanthala Tea
- Lion brewery
- Textile & Apparel
- Star garments
- Jay Jay Mills
- Ocean Lanka
- Stretchline
- Global Rubber
- Pheonix Plastics
- Michelin

- JAAF
- National Ceylon Chamber of Commerce
- FCCISL
- ESCOs

- Industrial Services Bureau
- Lanka Energy

- Asian Development Bank
- World Bank

1. UNIDO data
2. UNIDO data

The findings

1. Challenges for industrial businesses

- In 2022, Sri Lanka's economy saw a severe downturn, shrinking by 7.8 per cent from the previous year, marking the steepest decline since gaining independence.[3] Businesses are still dealing with the effects of the crisis, which has reduced spending and increased operating costs, and many are still in 'recovery mode'.
- Due to the challenging economic situation, companies do not have access to affordable financing. This prevents them from investing in industrial decarbonization. The interest rates for green loans are twice what companies tend to expect, the maturities are usually shorter, and the collateral requirements are high.
- The banks do not have a 'proactive' approach when it comes to offering green loans targeted at industrial decarbonization activities.
- The technologies that companies need to decarbonize are currently too expensive for many, especially small and medium enterprises.
- There is a lack of enabling policies, regulations and governance structures to encourage companies to invest in decarbonization.
- There is a lack of knowledge and capacities in companies, which prevents them from investing in industrial decarbonization technologies and practices.



3. Figure from the Econoler/UNIDO 2023 landscape analysis report

2. Challenges for financial institutions

- There is a lack of access to affordable sources of funding (e.g. funding from multilateral development banks and government instruments such as interest subsidies and guarantees). This is the biggest barrier that is preventing financial institutions from financing investments in decarbonization technologies.
- Financial institutions also lack the knowledge and capacities that would enable more effective and efficient practices to fund industrial decarbonization.
- Although many banks have dedicated functions and people, green or sustainable lending is not yet streamlined. In many banks, there are no dedicated financial products, processes and capacities to enhance green lending.
- Financial institutions face significant challenges when it comes to understanding and interpreting decarbonization regulations.

The way forward

The findings of the landscape analysis have been used to develop an industrial decarbonization financing strategy for Sri Lanka, in consultation with key industry representatives, financial institutions and policymakers.

The strategy's core objectives are to facilitate and accelerate investment in the technologies and measures that Sri Lanka's entire industrial sector value-chain needs to decarbonize.

This will be accomplished through:

1. Facilitating access to finance.
2. Derisking financing.
3. Establishing robust governance and setting-up the right agencies and institutions.
4. Enhancing knowledge and building capacity within government, industry and financial entities.

The strategy provides recommendations to operationalize each area. It is currently being reviewed by government, industry, banks, financial institutions and other key stakeholders.

The Accelerating Industries' Climate Response in Sri Lanka initiative runs between 2022-2027. It is led by the Ministry of Environment, Ministry of Industries and Ministry of Power and Energy, implemented by the United Nations Industrial Development Organization and funded by the European Union under the Global Climate Change Alliance+.

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