PREVENTION OF MARINE LITTER IN THE LAKSHADWEEP SEA

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Green Finance Landscape and Access to Green Finance in the Tourism Sector in Sri Lanka

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13 CLIMATE ACTION
14 LIFE BELOW WATER
17 PARTNERSHIPS FOR THE GOALS

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List of Abbreviations:

Abbreviation	Full Form / Description
ADB	Asian Development Bank
BIOFIN	Biodiversity Finance Initiative
CBSL	Central Bank of Sri Lanka
CEA	Central Environmental Authority (Sri Lanka)
CIF	Climate Investment Funds
CSR	Corporate Social Responsibility
DFCC	Development Finance Corporation of Ceylon Bank
DFI	Development Finance Institution
EFF	Extended Fund Facility
ESG	Environmental, Social and Governance
EU	European Union
FI	Financial Institution
GCF	Green Climate Fund
GDP	Gross Domestic Product
GHG	Greenhouse Gas
GRID	Green, Resilient and Inclusive Development
IFI	International Financial Institution
IMF	International Monetary Fund
MSME	Micro, Small and Medium Enterprise
NCPC	National Cleaner Production Centre
NDC	Nationally Determined Contribution
NSTC	National Sustainable Tourism Certification
PV	Photovoltaic
PROMISE	Preventing Marine Litter in Sensitive Areas

Abbreviation	Full Form / Description
SCP	Sustainable Consumption and Production
SDG	Sustainable Development Goal
SME	Small and Medium Enterprise
SLTDA	Sri Lanka Tourism Development Authority
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UNWTO	United Nations World Tourism Organization
WP	Work Package

1. Executive Summary

This *Green Finance Landscape and Access to Green Finance in the Tourism Sector in Sri Lanka* report examines the evolving green finance ecosystem and its role in supporting the transition of Sri Lanka's tourism sector toward more sustainable, resource-efficient, and climate-resilient business models. Tourism remains a cornerstone of the national economy, contributing significantly to employment and foreign exchange earnings, while also exerting pressure on natural resources and coastal ecosystems. In this context, **green finance is a critical enabler** for reducing environmental impacts, preventing marine litter, and strengthening the long-term competitiveness of tourism MSMEs.

The report provides an overview of Sri Lanka's green finance landscape, highlighting progress achieved through national policy instruments such as the **Sri Lanka Green Finance Taxonomy**, growing engagement from international financial institutions, and the expanding role of domestic banks in sustainability-linked lending. Despite these advancements, access to green finance for tourism MSMEs remains constrained by limited awareness of available schemes, high upfront investment costs for green technologies, conservative risk perceptions within financial institutions, and gaps in technical capacity to develop bankable green investment proposals.

Through targeted interventions under the **PROMISE project**, these barriers were addressed by strengthening both the supply and demand sides of green finance. Capacity-building workshops enhanced financial institutions' understanding of green finance concepts, product development, and financing of high-cost circular economy solutions, while complementary workshops supported tourism MSMEs in navigating financing options, engaging with lenders, and identifying suitable green technologies. These efforts were reinforced through hands-on technical assistance and matchmaking support, resulting in tangible financing outcomes, particularly for rooftop solar photovoltaic investments.

Key lessons from PROMISE demonstrate that **awareness, technical readiness, and ecosystem coordination are often more decisive than the availability of finance itself**. Tourism MSMEs show strong willingness to adopt green solutions when investments are affordable, clearly communicated, and aligned with business needs. For financial institutions, adopting context-specific appraisal approaches, partnering with technical intermediaries, and accessing concessional or blended finance are essential for scaling green lending in the tourism sector.

Overall, the report concludes that Sri Lanka has a strong foundation to expand green finance in tourism, but sustained progress will require **enhanced coordination across financial institutions, policymakers, technical experts and MSMEs**, alongside continued capacity building and targeted financial instruments. The PROMISE experience offers a replicable and practical model for future initiatives aiming to translate green finance frameworks into real investments that deliver environmental impact, business resilience, and long-term sustainable growth.

2. Background

Sri Lanka's tourism sector has continued its strong rebound from the combined impacts of COVID-19, political instability, and the macro-economic crisis, emerging as a key driver of foreign exchange earnings and employment recovery. In 2025, the country recorded **over 2.3 million international tourist arrivals and tourism revenues exceeding USD 3 billion**, marking the highest performance in Sri Lanka's tourism history *(Sri Lanka Tourism Development Authority – SLTDA, 2025; Central Bank of Sri Lanka, 2025)*. Tourism has been prioritised within the broader economic stabilisation programme supported by the **IMF Extended Fund Facility**, which has helped restore macro-economic stability, curb inflation, and rebuild investor confidence *(IMF, 2023; IMF, 2024)*. Government targets aim to reach **3 million tourist arrivals by 2026**, with a strategic focus on high-value, low-impact tourism models *(Ministry of Tourism Sri Lanka, 2025)*.

Green finance is increasingly positioned as a key enabler of sustainable tourism transformation in Sri Lanka. The **National Sustainable Tourism Certification (NSTC)** scheme, led by SLTDA with support from **UNDP and the BIOFIN initiative**, has scaled up the integration of environmental, social and governance (ESG) criteria across hotels and tourism SMEs, particularly in energy efficiency, water stewardship, waste reduction, and biodiversity conservation *(UNDP BIOFIN Sri Lanka, 2024)*. Complementary initiatives by the **National Cleaner Production Centre (NCPC)**, supported by development partners, have strengthened access to technical assistance and green finance readiness for tourism businesses, improving bankability and operational efficiency *(NCPC Sri Lanka, 2024)*. These efforts align with Sri Lanka's broader climate and sustainability agenda under the **National Climate Finance Strategy 2025–2030**, which explicitly identifies tourism as a priority sector for low-carbon and climate-resilient investment *(Ministry of Environment Sri Lanka, 2025)*.

At the financial system level, Sri Lanka's green finance ecosystem is gradually maturing, creating new opportunities for sustainable tourism investment. Domestic financial institutions have begun issuing **green and sustainability-linked financial products**, including early green bond issuances and concessional lending windows for renewable energy, circular economy, and resource-efficient infrastructure *(Central Bank of Sri Lanka, 2024; IFC, 2024)*. While most green finance to date has focused on energy and manufacturing, policy frameworks increasingly recognise the potential to channel such instruments toward **eco-tourism infrastructure, sustainable coastal development, and climate-resilient tourism SMEs**, particularly in vulnerable coastal and island contexts *(World Bank, 2025)*. Strengthening linkages between tourism enterprises, financial institutions, and blended finance mechanisms will be critical to scaling green investments and ensuring that tourism growth supports environmental protection, community livelihoods, and long-term resilience through 2026 and beyond *(UNEP, 2024)*.

3. Tourism in Sri Lanka

Sri Lanka's tourism industry, long known as one of the island's most dynamic economic sectors, has undergone a remarkable turnaround since the multiple shocks of the 2019 Easter Sunday attacks, the COVID-19 pandemic, and the 2022–2023 economic crisis. After arrivals plummeted to just ~194,000 in 2021 following international travel restrictions, the sector began a steady recovery in 2022 with around **720,000 international visitors**, a **73% increase over the previous year** though still below pre-crisis levels *(Trade.gov, 2024; Central Bank of Sri Lanka, 2025)*. By 2023, arrivals rose to over **1.48 million**, signaling renewed confidence among global travelers and improved connectivity *(Central Bank of Sri Lanka,* *2025)*. In 2024, the industry recorded **approximately 2.05 million tourist arrivals and USD 3.17 billion in revenue**, marking a **38% and 53% year-on-year increase in arrivals and earnings respectively**, driven by visa facilitation, promotional campaigns and widening global travel demand *(SLTDA Annual Report via National Climate Finance Strategy, 2025)*.

Building on this momentum, 2025 saw Sri Lanka achieve its **highest-ever tourist numbers**, welcoming **around 2.36 million visitors and generating roughly USD 3.2 billion in tourism receipts**, despite disruptions from **Cyclone Ditwah** in late 2025 that caused widespread infrastructure damage and temporarily challenged peak-season operations *(Ministry of Foreign Affairs Sri Lanka, 2026; Reuters, 2026)*. In response, the government has set an ambitious target of **3 million arrivals in 2026**, backed by strategies to diversify source markets, enhance air connectivity, and stimulate investment — including plans to attract over **USD 500 million in tourism-related investments in 2026** *(Reuters, 2026)*. The sector remains a pivotal foreign exchange earner and employment provider, accounting for an increasing share of GDP and supporting rural livelihoods through community-based hospitality ventures and related services.

Across this rebound trajectory, **green and sustainable tourism** has gained increasing attention among policymakers and industry stakeholders. The **Sri Lanka Tourism Development Authority (SLTDA)** has championed a **National Sustainable Tourism Certification (NSTC)** scheme, developed in partnership with **UNDP and BIOFIN**, which helps tourism businesses adopt environmentally and socially responsible practices across water and waste management, energy efficiency, biodiversity protection, and local community engagement *(SLTDA, undated; BIOFIN, 2025)*. In mid-2025, **100 SMEs were formally recognised with this certification**, illustrating growing industry uptake and signalling a shift toward **responsible tourism** as both a competitive advantage and a resilience strategy *(BIOFIN, 2025)*. Complementary efforts by civil society and research institutes are promoting eco-tourism experiences, reef-safe marine tourism, mangrove restoration, and wildlife conservation programmes that align with sustainable development goals *(First Capital Research, 2025)*.

Despite these positive signals, the **transition to green and eco-friendly tourism has been uneven and faces structural obstacles**. Many hotels, resorts, and guesthouses, particularly small and medium-sized enterprises, express **willingness to adopt sustainable practices** — such as reducing single-use plastics, installing energy-efficient systems, improving waste segregation, and integrating local supply chains — but cite **limited access to affordable green finance**, high upfront costs for clean technologies, and insufficient incentives as major barriers *(First Capital Research, 2025)*. Larger chain hotels and a few boutique eco-properties (e.g., internationally recognised eco-resorts) demonstrate what is possible when sustainability is embedded in operations, yet such examples remain **a small share of the overall landscape** *(Jetwing Vil Uyana example cited in broader literature, 2023)*. Moreover, awareness and uptake of internationally recognised eco-certifications beyond the national scheme remain relatively limited, partly due to perceived complexity and cost.

In the context of **green finance**, banks and financial institutions in Sri Lanka are beginning to introduce sustainability-linked lending products and green credit lines, but demand from tourism operators is constrained by **risk perceptions, lack of tailored financial instruments, and inadequate project preparation capacity**. Many smaller tourism businesses struggle to meet lender criteria for green financing — including robust business plans, environmental impact assessments, and measurable sustainability outcomes — which inhibits their ability to invest in renewable energy, water recycling, or climate-adaptive infrastructure. Strengthening technical assistance, expanding de-risking mechanisms (e.g., partial credit guarantees), and integrating sustainability targets into mainstream tourism financing are emerging priorities to unlock capital for the tourism sector's green transition. Such efforts will help ensure that Sri Lanka's rapidly expanding tourism industry not only supports economic recovery but also contributes to **long-term environmental stewardship, community well-being, and resilience to climate change**.

4. Green Finance Ecosystem in Sri Lanka

Sri Lanka's green finance ecosystem is evolving as a **policy-driven and market-enabling framework** designed to align financial flows with national climate, environmental, and development priorities. Against the backdrop of economic recovery and climate vulnerability, the focus has shifted toward **creating regulatory clarity, strengthening financial sector capacity, and improving investment readiness**, rather than relying solely on public expenditure *(Central Bank of Sri Lanka, 2024)*. This ecosystem increasingly seeks to integrate sustainability considerations across banking, capital markets, and public finance decision-making.

A cornerstone of this framework is the **Sri Lanka Green Finance Taxonomy**, launched by the Central Bank of Sri Lanka in 2022, which provides a **nationally harmonised classification of environmentally sustainable economic activities** *(CBSL, 2022)*. Anchored in the **Roadmap for Sustainable Finance (2019)**, the Taxonomy enhances transparency, reduces green-washing risks, and supports financial institutions in developing green lending and investment products aligned with international standards *(CBSL, 2019; IFC, 2024)*. Complementary regulatory initiatives increasingly emphasise **ESG risk management, climate-related disclosures, and sustainable banking practices**, strengthening the resilience of the financial system *(CBSL, 2024)*.

At the national level, Sri Lanka's green finance architecture is guided by strategic frameworks such as the **National Climate Finance Strategy 2025–2030**, which identifies priority sectors, financing instruments, and institutional responsibilities *(Ministry of Environment Sri Lanka, 2025)*. Dedicated mechanisms, including the **Sri Lanka Green Fund**, support environmental conservation and climate-related investments, while policy incentives encourage private sector participation in renewable energy, resource efficiency, and low-carbon infrastructure *(Ministry of Environment Sri Lanka, 2024)*. Together, these elements form an enabling environment that complements the catalytic role of international financial institutions and positions Sri Lanka to **scale sustainable investment, crowd in private capital, and advance a climate-resilient development pathway**.

4.1 International Financial Institutions in Sri Lanka

International Financial Institutions (IFIs) play a **foundational role in shaping Sri Lanka's green finance landscape**, particularly in the context of fiscal constraints, climate vulnerability, and post-crisis recovery. Through a combination of **policy-based lending, investment financing, technical assistance, and risk-mitigation instruments**, IFIs support the Government of Sri Lanka in advancing climate mitigation, adaptation, and sustainability-linked reforms. Their interventions span renewable energy, climate-resilient infrastructure, sustainable urban development, biodiversity conservation, and financial-sector reform, with a growing emphasis on **mobilising private capital and strengthening green financial markets** *(World Bank, 2024; ADB, 2025)*.

Table 1 provides an overview of the major International Financial Institutions active in Sri Lanka and summarises their key commitments, initiatives, funding approaches, and strategic objectives related to green and sustainable finance. Collectively, these institutions play a catalytic role by de-risking investments, strengthening policy and regulatory frameworks, and enhancing institutional capacity, thereby enabling Sri Lanka to scale climate-aligned investments and meet its national and international sustainability commitments *(IMF, 2024; UNDP Sri Lanka, 2024)*.

Table 1: International Financial Institutions and Green Finance Engagement in Sri Lanka

International Financial Institution	Green Finance Commitments, Initiatives and Objectives
World Bank Group (IBRD, IDA, IFC)	The World Bank supports Sri Lanka's green transition through a mix of **development policy financing, investment projects, and advisory services** focused on climate resilience, renewable energy, sustainable urban development, and natural resource management *(World Bank, 2024)*. Climate action is integrated into macro-fiscal reforms, including carbon pricing readiness, disaster risk financing, and public investment management *(World Bank, 2025)*. Through **IFC**, the Group also mobilises **private sector green investments**, including energy efficiency, sustainable tourism, and green banking, via blended finance, credit lines, and ESG advisory support *(IFC, 2024)*.
Asian Development Bank (ADB)	ADB is a major financier of **renewable energy, climate-resilient infrastructure, sustainable transport, and water management** in Sri Lanka *(ADB, 2024)*. Its climate finance operations support alignment with Sri Lanka's NDCs and include **policy-based lending, green public procurement, and sustainable finance reforms** *(ADB, 2025)*. ADB also strengthens local financial institutions through **green credit lines and capacity-building programmes**, facilitating SME investments in clean technologies.
International Monetary Fund (IMF)	While not a direct project financier, the IMF plays a **system-level role in enabling green finance** through macro-economic stabilisation, fiscal reform, and governance improvements under the **Extended Fund Facility (EFF)** *(IMF, 2023; IMF, 2024)*. These reforms enhance **debt sustainability, transparency, and investor confidence**, which are critical preconditions for scaling climate and green investments. Climate risks are increasingly integrated into IMF surveillance and policy dialogue.
United Nations Development Programme (UNDP)	UNDP supports Sri Lanka's green finance ecosystem through **policy development, climate finance readiness, and capacity-building initiatives**, including **BIOFIN and NDC implementation support** *(UNDP Sri Lanka, 2024)*. UNDP has been instrumental in operationalising sustainable finance tools at sector level, including tourism, and in strengthening links between national policy frameworks and international climate finance mechanisms.
Climate Investment Funds (CIF)	CIF provides **concessional and blended finance** to support Sri Lanka's clean energy transition and climate resilience agenda, typically implemented in partnership with ADB and the World Bank *(CIF, 2024)*. CIF resources help **de-risk transformational investments**, crowd in private capital, and address financing barriers for large-scale climate projects.
Global Environment Facility (GEF)	GEF supports Sri Lanka through **grant-based financing** focused on biodiversity conservation, land degradation, marine and coastal protection, and climate mitigation *(GEF, 2024)*. GEF funding complements IFI investments by supporting **pilots, innovation,**

International Financial Institution	Green Finance Commitments, Initiatives and Objectives
	and institutional capacity building, particularly in environmentally sensitive and tourism-relevant landscapes.

4.2 Green Finance Schemes for SMEs in Sri Lanka

Small and medium-sized enterprises (SMEs) are central to Sri Lanka's economy and play a **critical role in delivering green transition outcomes**, particularly in sectors such as tourism, manufacturing, agriculture, and services. Recognising this, Sri Lanka's green finance ecosystem increasingly targets SMEs through **concessional lending schemes, refinance windows, sustainability-linked loans, and technical assistance programmes**, often supported by development finance institutions *(Central Bank of Sri Lanka, 2024)*. These schemes aim to address key barriers faced by SMEs, including high upfront investment costs, limited collateral, and constrained access to long-term finance for renewable energy, energy efficiency, waste management, and cleaner production technologies *(IFC, 2024)*.

While demand for green investments among SMEs is rising, **access to tailored green finance remains uneven**, with uptake concentrated among larger firms and urban enterprises. Commercial banks and non-banking financial institutions have responded by developing **dedicated green loan products**, often aligned with the **Sri Lanka Green Finance Taxonomy**, to improve eligibility, transparency, and environmental integrity *(CBSL, 2022)*. **Table 2 provides an overview of key green finance schemes currently available to SMEs in Sri Lanka**, highlighting the role of both public and private financial institutions in supporting sustainable enterprise development.

Table 2: Green Finance Schemes for SMEs in Sri Lanka

Financial Institution	Green Finance Schemes for SMEs
Central Bank of Sri Lanka (CBSL)	**Sustainable Finance Roadmap & Refinance Facilities:** CBSL provides policy direction and refinance mechanisms to incentivise banks to lend to SMEs for renewable energy, energy efficiency, and resource-efficient technologies *(CBSL, 2019; CBSL, 2024)*. These facilities reduce borrowing costs and encourage financial institutions to expand green SME portfolios aligned with national climate priorities.
National Development Bank (NDB)	**Green Energy Loan Scheme:** Financing for solar PV, biomass, and energy-efficient machinery for SMEs, supported by concessional funding lines *(NDB Bank, 2024)*. The scheme targets reduced energy costs and carbon emissions while improving SME competitiveness.
	Sustainability-Linked SME Loans: Loan pricing linked to achievement of environmental performance indicators such as energy savings or waste reduction *(IFC & NDB, 2024)*.

Financial Institution	Green Finance Schemes for SMEs
DFCC Bank	**Green Loans for SMEs:** Financing for renewable energy, wastewater treatment, cleaner production, and eco-friendly building upgrades *(DFCC Bank, 2024)*. The scheme combines lending with technical advisory support.
	Sustainable Development Financing: Long-term credit lines supported by ADB and other DFIs, targeting SMEs adopting ESG-aligned business models *(ADB, 2024)*.
SANASA Development Bank (SDB)	**Eco-Friendly SME Loans:** Small-ticket green loans targeting rural and community-based SMEs for solar systems, energy-efficient equipment, and sustainable livelihoods *(SANASA Bank, 2024)*.
People's Bank	**Green Financing Products for SMEs:** Loans for renewable energy installations, energy-efficient machinery, and environmentally responsible manufacturing processes *(People's Bank, 2024)*. Focused on widening access across regions.
Sampath Bank	**Green Loans & Solar Financing:** SME-focused loans for rooftop solar, energy efficiency, and sustainable infrastructure *(Sampath Bank, 2024)*.
	Sustainability-Linked Financing: Incentives for SMEs achieving predefined ESG or resource-efficiency benchmarks *(Sampath Bank, 2024)*.
Commercial Bank of Ceylon	**Green Credit Lines:** Financing for clean energy, low-carbon transport, and environmentally responsible SME investments, aligned with the Green Finance Taxonomy *(Commercial Bank, 2024)*.
LOLC Finance (NBFI)	**Green Leasing & SME Loans:** Leasing products for solar systems, electric vehicles, and energy-efficient equipment, catering to SMEs with limited collateral *(LOLC Finance, 2024)*.

4.3 The E-FRIEND Scheme

The **E-FRIEND (Enterprise Finance for Green Development) scheme** is one of Sri Lanka's **most prominent and structured green finance initiatives for SMEs**, designed and implemented by the **Central Bank of Sri Lanka (CBSL)** as part of its broader **Roadmap for Sustainable Finance** *(CBSL, 2019; CBSL, 2024)*. The scheme was **introduced in phases**, reflecting an adaptive approach to scaling green SME finance while incorporating lessons learned from earlier implementation rounds.

Phase I of E-FRIEND was launched in **2021**, with an initial focus on **renewable energy (particularly rooftop solar), energy efficiency, and pollution control investments** by SMEs *(CBSL, 2021)*. This phase primarily targeted manufacturing and service-sector enterprises and relied on refinance facilities provided to participating financial institutions at concessional rates. **Phase II**, rolled out between **2023 and 2024**, expanded sectoral coverage to include **waste management, cleaner production technologies,**

sustainable agriculture, and selected service industries, while strengthening alignment with national climate and environmental priorities *(CBSL, 2023)*. As of **2025–2026**, E-FRIEND is operating in an **expanded phase**, increasingly aligned with the **Sri Lanka Green Finance Taxonomy**, with growing relevance for **tourism, hospitality, and coastal SMEs**, particularly those investing in energy efficiency, water stewardship, and waste reduction *(CBSL, 2024)*.

A defining feature of E-FRIEND is its **blended finance structure**, which combines concessional refinance facilities, reduced interest rates, and extended repayment periods. This significantly lowers the cost of capital for SMEs while incentivising banks to scale green lending portfolios. Importantly, the scheme also encourages financial institutions to strengthen **green project appraisal capacity** and improve outreach to SMEs unfamiliar with sustainability-linked investments. The phased design enables CBSL to progressively refine eligibility criteria, monitoring mechanisms, and environmental safeguards, positioning E-FRIEND as a **flagship instrument for mainstreaming green finance in Sri Lanka's SME sector**.

Key eligibility criteria under the E-FRIEND scheme typically include:

- **Applicant profile:** Registered SMEs operating in eligible sectors such as manufacturing, services, agriculture, tourism, or related value chains *(CBSL, 2024)*.
- **Eligible investments:** Renewable energy (e.g. solar PV), energy-efficient machinery, waste and wastewater management systems, pollution control equipment, and cleaner production technologies.
- **Environmental compliance:** Projects must demonstrate **measurable environmental benefits**, such as energy savings, emissions reduction, or resource efficiency gains, aligned with national standards.
- **Financial viability:** Applicants must meet participating banks' creditworthiness criteria, including cash flow sustainability and repayment capacity.
- **Taxonomy alignment:** Increasing emphasis on alignment with the **Sri Lanka Green Finance Taxonomy**, particularly in later phases *(CBSL, 2022; CBSL, 2024)*.

Overall, E-FRIEND represents a **strategic bridge between policy ambition and on-the-ground SME investment**, addressing both financial and institutional barriers to green transformation. Its evolving design, sectoral expansion, and growing relevance to tourism and coastal enterprises make it particularly pertinent for initiatives such as **PROMISE**, where SME engagement is central to achieving environmental outcomes.

4.4 SMILE III Revolving Fund

The **SMILE III Revolving Fund** (Small and Medium Enterprise Line of Credit III) is a flagship **concessional financing mechanism for SMEs in Sri Lanka**, jointly implemented by the **Government of Sri Lanka**, the **Central Bank of Sri Lanka (CBSL)**, and the **Japan International Cooperation Agency (JICA)**. Building on the success of earlier SMILE phases, **SMILE III was launched in 2018** with the objective of **enhancing access to long-term, affordable finance for SMEs**, while progressively integrating **environmental sustainability and resource efficiency considerations** into SME lending *(JICA, 2018; CBSL, 2019)*.

SMILE I and II primarily focused on improving SME access to finance, employment generation, and regional economic development. **SMILE III marked a strategic shift** by incorporating **environmental protection, energy efficiency, and climate resilience** as explicit financing priorities *(JICA, 2020)*. Under this phase, participating financial institutions receive **low-cost, long-tenor refinance funding**, which is then on-lent to SMEs at preferential rates. Since **2022–2023**, the scheme has increasingly aligned with Sri Lanka's **sustainable finance agenda**, including principles reflected in the **Green Finance Taxonomy**, making it relevant for green investments in manufacturing, services, tourism, and agri-based value chains *(CBSL, 2022; CBSL, 2024)*.

As of **2025–2026**, SMILE III continues to operate as a **revolving fund**, enabling continuous reinvestment of repaid loans into new SME projects. While not exclusively a green finance instrument, SMILE III has become an **important transitional mechanism** for financing **energy-efficient machinery, cleaner production processes, waste minimisation, and environmentally responsible business upgrades**, especially for SMEs that may not yet qualify for more specialised green finance schemes such as E-FRIEND *(ADB, 2024)*. Its flexibility and broad sectoral eligibility make it particularly relevant for **tourism SMEs, small hotels, guesthouses, and service providers** seeking incremental sustainability improvements.

Key eligibility criteria under the SMILE III Revolving Fund typically include:

- **Applicant profile:** Registered SMEs operating across manufacturing, services, tourism, agriculture, and related sectors *(CBSL, 2024)*.
- **Eligible investments:** Machinery and equipment upgrades, productivity enhancement, energy-efficient technologies, pollution reduction measures, and business expansion with environmental co-benefits.
- **Loan characteristics:** Medium- to long-term loans with concessional interest rates and extended repayment periods, depending on participating bank terms.
- **Environmental considerations:** Increasing preference for projects demonstrating **resource efficiency, reduced emissions, or improved environmental performance**, though formal taxonomy alignment is still evolving *(JICA, 2023)*.
- **Financial criteria:** Standard credit appraisal by participating financial institutions, including viability, repayment capacity, and compliance with regulatory requirements.

Overall, the **SMILE III Revolving Fund serves as a critical bridge between conventional SME finance and fully-fledged green finance instruments** in Sri Lanka. By gradually embedding sustainability considerations into a widely accessible SME credit line, SMILE III has helped normalise environmental investments within mainstream banking practices. For initiatives such as **PROMISE**, the scheme offers an important entry point to engage tourism and coastal SMEs that are **willing to improve environmental performance but face constraints in accessing dedicated green finance products**.

5. PROMISE efforts in supporting FIs and MSMEs on Green Finance

Access to appropriate and affordable green finance remains a critical enabler for advancing sustainable tourism and marine litter prevention in Sri Lanka. Under **Work Package 4 (WP4)** of the PROMISE project, adelphi, in collaboration with the **National Cleaner Production Centre (NCPC) Sri Lanka**, implemented a structured set of capacity-building and market-linkage activities aimed at **strengthening both the supply and demand sides of green finance**. The interventions were designed to simultaneously enhance the ability of **Financial Institutions (FIs)** to develop and offer green finance products, while equipping **micro, small and medium enterprises (MSMEs)**—particularly in the tourism sector—with the knowledge and connections needed to access such finance.

Figure 5: Presenting effective sustainable management strategies

The PROMISE green finance activities in Sri Lanka followed a **systems approach**, recognising that sustainable finance uptake requires aligned understanding, trust, and coordination between banks, MSMEs, and green technology providers. Through targeted workshops, hands-on toolkits, and direct matchmaking support, PROMISE moved beyond awareness-raising to **demonstrating real, bankable green investments**, particularly in high-impact areas such as renewable energy and zero-waste solutions. The following sub-sections summarise the key interventions and outcomes.

5.1 Green Finance Workshop with Financial Institutions

As part of WP4, PROMISE organised a **Green Finance Workshop for Financial Institutions** on **18 January 2024 in Colombo**, implemented by adelphi in partnership with NCPC Sri Lanka. The workshop brought together **16 representatives from leading Sri Lankan financial institutions**, reflecting strong interest from the banking and financial sector in expanding green finance portfolios. The training was facilitated by **Amarnath Munnolimath (adelphi)** and focused on building both conceptual understanding and practical product development capacity.

The workshop covered green finance terminology and global frameworks, the Sri Lankan green finance context, and **international best practices in green financial products**, with a particular emphasis on **high-cost zero-waste and circular economy solutions** that are often perceived as risky by financial institutions. Participants engaged in interactive group work to **identify challenges and opportunities for green finance in Sri Lanka**, conduct **actor mapping across the green finance ecosystem**, and explore how financial institutions can better respond to MSME needs. Each participating institution received a **Green Finance Product Development Toolkit**, enabling them to internalise the learning and explore pilot products within their own organisations. Feedback from participants was highly positive, with strong engagement and expressed interest in applying the tools in real lending contexts.

Figure 1: Photos from Green Finance Workshop with FIs

5.2 Green Finance Workshop with MSMEs

Complementing the supply-side intervention, PROMISE organised an **MSME Green Finance Workshop** on **25 January 2023 in Colombo**, specifically targeting **tourism-sector MSMEs** participating in the PROMISE project. The objective of this workshop was to strengthen MSMEs' **understanding of green finance**, demystify financing processes, and create direct interfaces with financial institutions and green technology providers.

The workshop focused on **introducing green finance concepts**, discussing **key challenges and opportunities in accessing finance**, and presenting **existing green finance schemes available in Sri Lanka**. A dedicated session enabled four financial institutions and four green technology providers to present their products and solutions, followed by structured networking and one-to-one discussions. This format allowed MSMEs to directly engage with lenders and solution providers, clarify eligibility requirements, and explore tailored investment options. The workshop was attended by 4 representative each from Fis and Technology Suppliers and **19 representatives from MSMEs**, and served as a practical platform to translate awareness into concrete financing pathways.

Figure 2: Photos from Gree Finance Workshop with MSMEs

5.3 Outcomes of PROMISE Green Finance Activities

The PROMISE green finance interventions in Sri Lanka delivered **tangible capacity-building and financing outcomes**, exceeding the project's original targets. With technical support from the **National Cleaner Production Centre (NCPC) Sri Lanka**, PROMISE successfully strengthened both the **supply and demand sides of green finance**. On the supply side, financial institutions enhanced their understanding of green finance concepts, risk–return profiles, and high-cost circular economy investments. On the demand side, tourism-sector MSMEs gained practical knowledge on accessing finance, preparing investment cases, and engaging with lenders and technology providers.

Beyond training and awareness-raising, PROMISE placed strong emphasis on **practical, transaction-oriented support**. Seven MSMEs received close, tailored assistance to identify suitable green technologies and connect with relevant financial institutions. The majority of these enterprises sought financing for **rooftop solar photovoltaic systems**, reflecting strong demand for energy cost reduction and climate-friendly investments in the tourism sector. As a direct outcome of this facilitation, **two MSMEs successfully secured bank financing from a commercial bank**, while **one MSME accessed funding through corporate CSR resources**, following targeted engagement by PROMISE technical consultants.

These results demonstrate PROMISE's ability to move beyond capacity building to **enable real financial closure**, thereby contributing to long-term sustainability and replicability of green finance efforts.

Key outcomes of PROMISE Green Finance activities in Sri Lanka include:

- **20 representatives from financial institutions trained** on green finance product development and financing of high-cost zero-waste and circular economy solutions.
- **85 MSME representatives sensitized** on access to finance and green finance opportunities in Sri Lanka's tourism sector.
- **7 MSMEs provided with intensive, hands-on support**, including technology identification and direct linkage to financial institutions.
- **3 MSMEs successfully accessed financing** for green investments (2 through commercial bank loans, 1 through CSR funding from own company).

Project green finance indicators exceeded, with additional efforts ensuring sustainability and continued engagement beyond the project duration.

6. Challenges and Opportunity Mapping

The promotion and uptake of green finance in Sri Lanka remain constrained by a combination of **structural, institutional, and market-level barriers**, despite growing policy attention and increasing availability of green finance instruments. Drawing on **practical experience from PROMISE project activities**, including direct engagement with **financial institutions, tourism MSMEs, technical consultants, and green technology providers**, this section synthesises the key challenges encountered on both the supply and demand sides of green finance. These insights reflect not only theoretical gaps but also real-world constraints observed during training workshops, one-to-one matchmaking, and implementation support.

At the same time, the PROMISE experience demonstrates that these challenges are **not insurmountable**. Targeted capacity building, improved coordination among stakeholders, and better alignment between financial products and MSME investment realities can significantly enhance green finance uptake. The following sub-sections outline the **main challenges and corresponding suggestions** for (i) Financial Institutions and (ii) MSMEs, supported by practical recommendations that can inform future policy design and project interventions.

6.1 Challenges and Suggestions for Financial Institutions

Financial Institutions (FIs) in Sri Lanka play a central role in scaling green finance but face **multiple operational and strategic constraints**. Interactions during the PROMISE Green Finance Workshop revealed that while banks are increasingly aware of sustainability imperatives, green finance is often perceived as **high-risk, complex, and resource-intensive**, particularly when targeting MSMEs and emerging technologies. Limited access to low-cost funding lines, lack of specialised technical knowledge, and insufficient internal incentives reduce the willingness of banks to actively prioritise green lending.

At the same time, FIs acknowledged clear **opportunities to expand green finance portfolios** if enabling conditions are strengthened. These include dedicated capacity-building programmes, access to concessional or blended finance, and stronger partnerships with technical experts and development partners.

Table 3 summarises the key challenges faced by financial institutions and corresponding suggestions identified through PROMISE stakeholder engagements.

Table 3: Challenges and Suggestions for Financial Institutions in Promoting Green Finance

Key Challenges for Financial Institutions	Suggestions / Opportunities
Non-availability of low-cost or concessional funding lines	Secure external funding lines from donor agencies and IFIs; develop blended finance mechanisms.
Lengthy and complex approval procedures	Streamline internal procedures and develop simplified appraisal pathways for green SME projects.
Limited awareness and training among bank staff	Conduct tailored training and capacity-building programmes on green finance and technology assessment.
Technical knowledge gaps on green technologies	Establish partnerships with technical consultants, NCPC, and technology providers for due diligence support.
Lack of incentives to prioritise green projects	Introduce internal incentives, relief funds, or portfolio-level green targets.
Limited industry-specific understanding (e.g. tourism)	Develop sector-specific green finance products and risk assessment tools.

6.2 Challenges and Opportunities for MSMEs

For MSMEs—particularly those operating in the tourism sector—**accessing green finance remains a significant challenge**, despite clear interest in adopting environmentally friendly practices. PROMISE interactions revealed that many MSMEs are **willing to invest in renewable energy, waste reduction, and resource efficiency**, but are discouraged by high upfront costs, complex financing procedures, and limited understanding of green finance options. Smaller enterprises often lack the capacity to prepare bankable proposals or navigate regulatory approvals, further constraining access to finance.

Nevertheless, MSMEs represent a **major opportunity for scaling green finance**, given the strong business case for cost savings, compliance, and improved market positioning. Awareness-raising, advisory support, and better linkage with financial institutions and CSR funding sources can significantly improve outcomes. **Table 4 highlights the main challenges faced by MSMEs and practical opportunities to address them**, as identified during PROMISE workshops and follow-up support.

Table 4: Challenges and Opportunities for MSMEs in Accessing Green Finance

Key Challenges for MSMEs	Opportunities / Suggested Solutions
Lack of awareness of green finance concepts	Implement targeted awareness and training programmes for MSMEs.
High initial investment costs for green technologies	Promote industry-specific cost–benefit cases; introduce subsidies and concessional credit lines.

Difficulty in accessing finance	Simplify procedures, allow flexible collateral, and link MSMEs with advisory services.
Challenges in preparing bankable projects	Provide technical support on feasibility, payback calculations, and proposal preparation.
Transition and physical climate risks	Introduce subsidised or risk-sharing green credit lines.
Delays in external approvals (e.g. CEA, local authorities)	Strengthen government coordination and streamline approval processes.
Limited linkage with financial institutions and technology providers	Facilitate matchmaking platforms and one-to-one engagement opportunities.

6.3 Cross-cutting Observations

Across both financial institutions and MSMEs, PROMISE activities highlighted the importance of **breaking siloed operations** and fostering a **coordinated green finance ecosystem**. Stronger policy signals, better data availability, recognition of green performance, and sustained engagement among stakeholders are essential to move from pilot initiatives to scale. Addressing these challenges through **concerted, multi-stakeholder efforts** will enable Sri Lanka to unlock the full potential of green finance as a driver of environmental protection, economic resilience, and sustainable tourism development.

7. Key Considerations for Financial Institutions in Sri Lanka

The PROMISE project's access-to-finance activities in Sri Lanka highlighted that the **selection and assessment of MSMEs for green finance requires a more nuanced, context-specific approach**, particularly in the tourism sector. Traditional credit appraisal methods, while necessary, often fail to fully capture the **operational realities, transition pathways, and risk–return dynamics** of MSMEs investing in green technologies. Drawing on PROMISE's direct engagement with tourism MSMEs, financial institutions, and technical consultants, this section outlines key considerations for financial institutions when evaluating green finance applications.

1. Assess MSME Readiness Beyond Conventional Financial Ratios: Many tourism MSMEs—especially small hotels, resorts, and guesthouses—operate with **seasonal cash flows**, informal accounting practices, and legacy loans accumulated during the COVID-19 and economic crisis period. PROMISE experience showed that **strict reliance on historical financial performance alone can exclude otherwise viable green investments**. Financial institutions are encouraged to:

- Evaluate **current and projected operational performance**, rather than only past financial statements.
- Consider **energy cost savings, waste reduction benefits, and operational efficiencies** generated by green technologies as part of credit appraisal.
- Account for **tourism recovery trends**, occupancy improvements, and forward bookings where relevant.

A forward-looking assessment better reflects the **true repayment capacity** of MSMEs transitioning toward greener operations.

2. Evaluate Technology Suitability and Scale Appropriateness: One of the most important lessons from PROMISE was that **technology–enterprise fit determines project success**. Financial institutions should ensure that the proposed green technology:

- Is **appropriate to the scale of the MSME's operations** (e.g. correctly sized rooftop solar systems).
- Has **proven performance in the Sri Lankan context**, including climatic, regulatory, and grid conditions.
- Comes from **reputable technology providers** with after-sales service and maintenance support.

In PROMISE-supported cases, technologies such as **rooftop solar PV and glass water bottling plants** were preferred because they offered clear cost savings, short payback periods, and minimal operational disruption.

3. Factor in Non-Financial Benefits in Tourism MSMEs: Tourism MSMEs derive value from green investments not only through cost savings but also through **market positioning and reputational gains**. PROMISE interactions revealed that many MSMEs underestimate this dimension, while banks often exclude it from assessment altogether. Financial institutions are encouraged to recognise:

- **Brand value and competitiveness gains** from adopting visible green technologies.
- Alignment with **international tour operator and booking platform sustainability requirements**.
- Improved compliance with **environmental regulations and certifications**, reducing long-term regulatory risk.

Incorporating these factors supports a more holistic evaluation of project viability.

4. Scrutinise Regulatory and Approval Readiness: Delays in external approvals—such as environmental clearances or local authority permissions—were identified as a recurring challenge during PROMISE activities. Financial institutions should:

- Assess whether the MSME has **initiated or secured required approvals** (e.g. CEA, local councils).
- Encourage early engagement with regulatory bodies to minimise implementation delays.
- Factor approval timelines into disbursement schedules and repayment structures.

5. Use Technical Intermediaries to Strengthen Bankability: PROMISE demonstrated that **technical consultants and cleaner production experts play a critical role** in bridging information gaps between MSMEs and banks. Financial institutions should:

- Proactively link MSMEs to **recognised technical partners** for feasibility studies and proposal development.
- Rely on third-party technical assessments to validate technology performance and savings projections.
- Consider developing **pre-approved technology lists** in collaboration with technical agencies.

6. Recognise Sector-Specific Risks in Tourism MSMEs: Tourism MSMEs face distinct risks, including **seasonality, climate exposure, and external shocks**. PROMISE experience suggests that these risks can be mitigated when green investments are designed to enhance resilience. Financial institutions should:

- Evaluate how the proposed green investment reduces **operational vulnerability** (e.g. energy self-sufficiency).
- Align repayment schedules with **seasonal revenue patterns**.
- Consider insurance or risk-sharing mechanisms where appropriate.

7. Encourage Phased and Modular Investments: Many MSMEs are reluctant to commit to large, upfront investments. PROMISE found that **phased or modular financing approaches** increased acceptance and reduced risk. Financial institutions can:

- Support **incremental technology adoption** (e.g. phased solar installation).
- Align loan structures with expansion stages.
- Combine green loans with **CSR funding or grants** where feasible.

8. Lessons Learned

The implementation of green finance activities under the PROMISE project in Sri Lanka generated a rich set of lessons for future programmes and financial institutions seeking to scale green finance—particularly in **MSME-dominated sectors such as tourism**. The experience demonstrated that while green finance frameworks and products increasingly exist at the policy and institutional levels, **effective uptake depends on bridging awareness gaps, reducing perceived risks, and strengthening technical and institutional linkages across the finance ecosystem**.

- **Awareness is the Primary Entry Barrier—Not Lack of Interest:** One of the most consistent findings from PROMISE engagements was that **many MSMEs, especially in the hotel and tourism sector, were unaware that green finance schemes existed at all**. Unlike the manufacturing sector, where energy efficiency and cleaner production financing has been promoted for years, tourism MSMEs had limited exposure to green financial instruments. Even when green loans with comparatively lower interest rates (8–12%) were available, uptake remained low due to insufficient outreach and communication. Importantly, MSMEs also lacked awareness of how **green investments—such as rooftop solar photovoltaic systems or glass water bottling plants—could be leveraged as marketing assets** to attract environmentally conscious international tourists. This underscores the need for green finance initiatives to be framed not only as cost-saving or compliance tools, but also as **strategic business investments linked to competitiveness and brand value**.

- **Risk Perception in Tourism Remains a Structural Constraint:** The tourism sector's vulnerability during the COVID-19 pandemic and Sri Lanka's subsequent economic crisis strongly influenced financial institutions' risk perception. Even as the sector began recovering, **banks continued to view tourism MSMEs as high-risk borrowers**, particularly when enterprises already carried legacy debt or had weakened balance sheets. This risk aversion persisted despite the environmental and long-term financial benefits of green investments. PROMISE activities highlighted that **risk perception—rather than actual project viability—often determines lending decisions**. Addressing this requires targeted de-risking mechanisms, including concessional credit lines, blended finance instruments, and improved project appraisal tools that account for operational cost savings and resilience benefits associated with green technologies.

- **Technical Capacity is a Missing Link on Both Sides:** A critical lesson was the **knowledge gap in preparing bankable green finance proposals**, particularly among MSMEs. Most green finance schemes require technical documentation, feasibility assessments, and financial projections—capabilities that many small hotels and guesthouses do not possess. At the same time, banks often **lack internal technical expertise** to evaluate green technologies or advise clients on proposal development. PROMISE demonstrated that **technical intermediaries—such as cleaner production centres, consultants, and technology providers—are essential enablers**. Structured collaboration between financial institutions and technical partners significantly improves loan readiness and reduces transaction costs for both parties. Future green finance programmes should institutionalise these partnerships rather than relying on ad hoc arrangements.

- **Affordability Matters as Much as Availability:** While interest rates in Sri Lanka declined from crisis-level highs (above 30%) to more moderate levels (around 15%), many MSMEs continued to perceive financing as unaffordable. Green finance schemes offering preferential rates exist, but **their benefits are diluted if MSMEs are unaware of them or unable to meet eligibility requirements**. The PROMISE experience suggests that **interest rate reductions alone are insufficient**. Green loans must be accompanied by simplified procedures, flexible collateral requirements, and clear communication on total cost of capital and payback periods. Financial institutions that can translate technical benefits into **simple financial narratives** are more likely to see uptake among MSMEs.

- **Institutional Capacity to Access International Climate Finance is Limited:** A notable structural constraint identified during PROMISE activities was the **limited accreditation of Sri Lankan financial institutions to access international climate finance**, such as the Green Climate Fund (GCF). At the time of implementation, **DFCC Bank was the only accredited national institution**, limiting the flow of concessional funds into the domestic market. This highlights the importance of **strengthening institutional readiness**—including governance systems, environmental and social safeguards, and reporting capacities—to unlock larger volumes of international green finance. Expanding accreditation across multiple financial institutions would significantly enhance competition, innovation, and scale in Sri Lanka's green finance ecosystem.
- **Workshops Work—When They Are Targeted and Practical:** PROMISE confirmed that **well-designed, targeted workshops are powerful catalysts** when they go beyond generic awareness-raising. Two distinct formats proved particularly effective:
  - **Multi-stakeholder workshops** that brought MSMEs, banks, and technology providers together to discuss real investment options and financing pathways.
  - **Dedicated FI-focused workshops** that addressed green finance product development, international funding access, and risk assessment tools.
  - The success of these workshops lay in their **practical orientation**, use of real case examples, and provision of toolkits that institutions could apply internally. This approach built confidence, reduced uncertainty, and fostered ownership among participants.
- **Technology Choice Drives Adoption:** Another key lesson was that **technology relevance matters**. Rooftop solar systems and glass water bottling plants emerged as the most adopted green technologies because they aligned well with MSMEs' operational needs, offered visible cost savings, and delivered immediate environmental benefits. Projects that promote green finance

should prioritise **technologies with clear business cases**, short payback periods, and strong relevance to the target sector.

- **Collaboration is the Core Enabler:** Across all lessons, a unifying theme emerged: **green finance cannot be scaled by any single actor alone**. Effective uptake requires coordinated action among policymakers, financial institutions, MSMEs, technical experts, and donors. PROMISE demonstrated that **breaking silos, facilitating dialogue, and enabling trust-based collaboration** are as important as financial instruments themselves.

Key Takeaways for Similar Projects and Financial Institutions

- Awareness creation must precede product deployment, especially in non-traditional green finance sectors such as tourism.
- De-risking and technical support mechanisms are essential to overcome conservative lending practices.
- Partnerships with technical intermediaries significantly improve bankability and uptake.
- Affordable, well-communicated, and flexible green finance products drive demand.
- Institutional capacity to access international climate finance must be strengthened.
- Targeted, practical workshops are highly effective in accelerating ecosystem readiness.

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