

The Next Development Mandate

Why sustainable finance must become the way Sri Lanka finances development.



Pioneering the Issuance of Green Bonds at the Colombo Stock Exchange.

Sri Lanka does not lack ambition. What it lacks is room for expensive mistakes. Capital is limited. Public finances remain under pressure. Businesses are rebuilding confidence after years of disruption. At the same time, climate change is beginning to alter the economics of agriculture, fisheries, energy, tourism, infrastructure, and many of the communities that depend on them. Every rupee invested must therefore work harder.

It must generate an economic return. It must withstand new environmental and social pressures. And it must contribute to a stronger country rather than create costs that someone else will have to carry later.

DFCC Bank supported the development of the country's private-sector renewable energy industry, including financing Sri Lanka's first grid-connected mini-hydropower project.



DFCC Bank; the First Foreign Corporate to list a Bond on India's NSE International Exchange 1.

This is why sustainable finance can no longer sit at the edge of the development conversation. It must become part of how Sri Lanka decides what to finance, how to finance it, and what results that capital should produce.



Sivalingam Sivakanthan, Vice President – Head of Strategic Planning and Sustainability, DFCC Bank.

Development finance must move with the country

DFCC Bank was established in 1955 as Sri Lanka's pioneering development finance institution. Its purpose was direct and practical: to provide long-term capital for the industries, businesses, and infrastructure the country needed.

That responsibility remains relevant today, although the requirements have changed.

Sri Lanka still needs investment in energy, enterprise, infrastructure, and productive capacity. But those investments must now respond to climate risk, pressure on natural resources, changing international standards, and the need to extend

opportunity more widely.

A project cannot be judged only by whether it is financially viable when a loan is approved. The more difficult question is whether its economics will continue to hold as environmental and social conditions change.

For DFCC Bank, this has meant carrying its original development mandate into a different era. The task is no longer simply to finance development. It is to finance development that works over time.

Sustainability belongs inside the decision

Sustainable banking is often discussed in terms of targets, disclosures, and specialized financial products. These are important, but they are not the whole answer.

The real test comes earlier, inside the decision. Which sectors receive capital? How are environmental and social risks assessed? What conditions should accompany financing? How will impact be measured? And what happens when a project that appears financially sound carries risks that may emerge only several years later?

DFCC Bank has applied environmental and social assessment to lending through its Environmental and Social Management System for more than two decades. This incorporates applicable IFC Performance Standards and provides a structured basis for identifying and managing risks associated with financed projects. That foundation has since expanded into a broader approach to sustainability-related risks and opportunities across the Bank. Board oversight, management responsibility, ESG policy, risk processes, disclosure, and external assurance connect sustainability to how decisions are made and reviewed.

This work attracts less attention than a new green or blue financial instrument. Yet its importance should not be underestimated. Sustainable finance is only as credible as the definitions, governance, data, and monitoring behind it. Without that discipline, capital may acquire a new label without producing a different result.



DFCC Bank became the first Sri Lankan entity accredited by the Green Climate Fund (GCF).

Finance must make a new investment possible

The value of sustainable finance is not limited to supporting projects that would have found funding anyway. Its greater contribution lies in helping important but underserved areas become investable.

Sri Lanka's renewable energy sector offers a useful example. DFCC Bank supported the development of the country's private-sector renewable energy industry, including financing

Sri Lanka's first grid-connected mini-hydropower project. Working with international development partners, the Bank helped direct private capital into a sector that was still establishing its commercial foundations.

What began with mini-hydropower later expanded to include wind, solar, and waste-to-energy projects. The lesson was straightforward: finance can do more than fund an established market. It can help create one.

That principle continues to apply to newer financial instruments. In 2024, DFCC Bank introduced Sri Lanka's first listed Green Bond, providing a route for domestic capital to support renewable energy. Sri Lanka's first Blue Bond, listed in 2025, extended the use of sustainable finance to water security, wastewater management, sustainable fisheries, marine ecosystems, and climate-resilient coastal infrastructure.

In 2026, a Basel III-compliant GSS+ Bond brought sustainable use-of-proceeds principles more deeply into the Bank's capital management.

The significance of these instruments is not found in their colors. It lies in the discipline they require: defined uses of funds, clear eligibility criteria, governance, reporting, and evidence of impact.

When done properly, they give investors greater confidence in where their money is going and provide important projects with access to capital that may not otherwise reach them.



DFCC Bank funded the first grid-connected solar project in Sri

Lanka.

Global climate capital needs a local route

Sri Lanka's climate financing requirement is greater than conventional bank balance sheets or public finances can meet alone. International climate finance must therefore become part of the solution. Access, however, is only the beginning.

Global funding must translate into viable local programs, credible project pipelines, and results that reach the sectors and communities most exposed. That requires institutions capable of connecting international funding requirements with local knowledge, implementation capacity, and financial discipline.

DFCC Bank became the first Sri Lankan entity accredited by the Green Climate Fund in 2023 and remains the country's only accredited entity. That accreditation provides Sri Lanka with a direct institutional route to the world's largest dedicated climate fund.

A climate-resilient fisheries initiative now being developed with the Food and Agriculture Organization illustrates the work needed to convert that access into practical action.

Fisheries sit at the intersection of several national priorities: food security, employment, exports, coastal livelihoods, and climate vulnerability. Financing resilience in this sector, therefore, serves both environmental and economic purposes.

This is where a bank can contribute something distinctive. It can help turn a development need into a credible financial structure, bring together different sources of capital, manage risk, and track results after funds have been deployed.

The objective is not merely to bring climate finance into Sri Lanka. It is to ensure that the finance works when it arrives.



First hydro power project in Sri Lanka – Hydro Tech, Dickoya in 1993 funded by DFCC Bank.

The transition must reach beyond large institutions

A sustainability transition confined to governments, banks, and large companies will not be enough.

Small businesses, farmers, fishing communities, women-led enterprises, and households must be able to participate. Many are already among those most exposed to changes in weather, resource availability, energy costs, and economic conditions. Yet they often have the least access to capital, technical knowledge, and protection against disruption. This is both a social and an economic issue.

If smaller businesses cannot adapt, supply chains weaken. If farming and fishing communities cannot respond to climate pressure, food security and rural incomes suffer. If households cannot access affordable solutions, the cost of transition becomes another source of exclusion.

Finance must therefore be accompanied by knowledge, capacity, and products suited to the realities of the people expected to use them. The environmental and social dimensions of sustainable finance are inseparable. Progress in one will eventually be limited by neglect of the other.



A women-led SME financed by DFCC Bank.

A mandate for the decade ahead

The coming decade will determine whether sustainable finance becomes part of the ordinary machinery of Sri Lanka's economy or remains a specialist category discussed largely through reports and conferences.

The outcome will not be measured by the number of commitments made. It will be visible in the quality of investment that follows: more reliable energy, stronger businesses, better-prepared communities, healthier ecosystems, and projects whose economics remain sound as conditions change.

DFCC Bank has a clear role in that work. Our history in development finance gives us experience, but it does not give us permission to rely on the past.

We must continue improving our risk practices, data, disclosures, and financial instruments.

We must build partnerships capable of channeling capital into sectors where the need is clear, but the path to investment remains difficult.

We must also be candid about the obstacles. Sri Lanka needs stronger project preparation, better data, deeper technical expertise, and financing structures that recognize both urgency and affordability.

Sustainable finance will not remove every trade-off. Nor will it replace the need for sound commercial judgment. It demands better judgment.

Profit remains essential. But the quality of that profit increasingly depends on what stands behind it: resilient businesses, secure communities, functioning ecosystems, and investment decisions that continue to make economic sense. That is the next development mandate.



Safeguarding the environment.