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Climate Finance in Sri Lanka: A Critical Review of Current Status, Implementation Gaps and Strategic Way Forward

Ranasinghe, D.M.S.H.K.*

Department of Forestry and Environmental Science, University of Sri Jayewardenepura, Nugegoda, Sri Lanka
**hemanthi.ranasinghe@gmail.com*

Abstract

This review analyzes the current landscape of climate finance in Sri Lanka, examining key challenges and opportunities in mobilizing and deploying financial resources for both climate adaptation and mitigation actions. Through a comprehensive analysis of policy documents, institutional frameworks, and financial instruments, this research employs a systematic review methodology focusing on both public and private sector climate finance initiatives. The analysis reveals that while Sri Lanka has made notable progress in establishing foundational frameworks, including the Green Finance Taxonomy and sustainable finance roadmap, significant challenges persist in scaling up climate finance. Current findings indicate that green lending comprises only 1.4% of the total banking sector portfolio, highlighting a substantial financing gap against the country's climate commitments. Given that Sri Lanka ranks 22nd in the World Risk Index, reflecting its significant vulnerability to natural disasters, it is particularly concerning that approximately 19 million people are projected to live in areas at risk of floods or droughts by 2050 (World Risk Index 2024). According to Sri Lanka's Climate Prosperity Plan, the country requires approximately USD 26.5 billion by 2030 for climate actions, with 69% focused on mitigation and 31% on adaptation efforts. At COP28, the Government further indicated a need for USD 100 billion to achieve its net-zero emissions target by 2050. These investments are crucial for meeting the country's commitments, including reducing greenhouse gas emissions by 14.5% during 2021-2030 and generating 70% of electricity from renewable sources by 2030. The study finds that innovative financing mechanisms, such as green bonds, carbon credit markets, and debt-for-nature swaps, remain underutilized despite their potential to bridge the funding gap. The review concludes that addressing Sri Lanka's climate finance challenges requires a multi-faceted approach focusing on developing bankable projects, strengthening institutional capacity, and fostering innovative financial instruments. Key recommendations include enhancing project development across key sectors, implementing targeted fiscal incentives for green lending, strengthening public-private coordination, and leveraging international climate finance opportunities. These findings provide valuable insights for policymakers and practitioners working to accelerate climate action through improved financial mechanisms in developing economies.

Keywords: *Climate finance mechanisms, Green taxonomy, Sustainable finance, Climate adaptation, Mitigation strategies, Financial innovation, Carbon neutrality*