

SUSTAINABILITY MANDATE
of
Licensed Finance Companies
Sri Lanka

Prepared by the
The Finance Houses Association of
Sri Lanka



-- November 2020 --

The Purpose

The purpose of this mandate is to serve as the guideline for the Licensed Finance Companies (LFCs) in Sri Lanka to integrate sustainability principles holistically into their businesses, enabling sustainable value creation through their own sustainable finance approaches, in line with defined sustainability guidelines, that would ultimately contribute towards national sustainability agenda and UN Sustainable Development Goals.



Introduction

Sustainability and sustainable development have become the world's most important topics during the past decade, given its magnitude of significance to create the world we want to live in. Finance in particular has been identified as a force for good than a mere enabler of economic action worldwide. A growing number of financial institutions in the world are adopting policies, systems, and lending practices that reduce the environmental and social impact of their operational footprint. They adopt sustainable financing practices to ensure that economic development doesn't come at the cost of our ecosystems and our future generations.

Leasing is an effective solution to enable sustainable businesses by reducing upfront costs and to some extent encouraging the design and production of sustainable products. Therefore, sustainable leasing and other financial solutions should be focused on financing sustainable economic activities taking environmental, social and governance (ESG) in to account when making an investment.

Thus, we believe sustainable financial model and solutions would,

- Support environmentally and socially inclusive projects through leasing and other financing for businesses with sustainable business models.
- Explore a sustainable model of leasing that could extend the lifecycle of equipment, machinery and appliances to promote a circular economy and sustainability.
- Explore specialized investment instruments to mobilize savings/assets and catalyze them towards sustainable investments.
- Enable sustainable value creation to all the stakeholders ensuring environmental and social wellbeing

Financial Inclusion and Responsible Financing are two key components of sustainable finance. Our Responsible Financing approach integrates environmental, social and governance (ESG) considerations into our credit and risk evaluation process in our lending practices and capital market activities.

Sri Lanka has identified financial inclusion as one of the top priorities to achieve sustainable economic development. The country has made considerable progress in financial inclusion as there is high level of physical access to financial institutions with more branches opening up in rural areas. However, financial literacy and financial awareness remain as a challenge for such clients to use financial services effectively and also limitations with no access to the formal

financial sector is still faced by micro, small and medium enterprises (MSMEs), low-income households, youth and women.

We recognize that our financial success is intrinsically linked to the overall health of the markets we operate in. We are committed to advancing environmental and social (E&S) progress and to conducting our business in a responsible and inclusive manner. By doing so, we will be able to support sustainable development in our markets and communities whilst creating long-term value for our stakeholders.

Specifically, we will not finance any activity which is excluded (as depicted in the exclusion list) with clear evidence of adverse impact to environment, people or communities. We further expect our customers to meet all local and related ESG laws and regulations. We further seek to influence them inculcating a sustainability driven mind-set by engaging and knowledge sharing on appropriate sustainable practices to meet higher ESG industry expectations over time.

The Sustainability Guidelines

The following sustainability elements and implementation guidelines have been prepared in accordance with the global sustainability best practices, national sustainability agenda and global sustainability standards.

1. A clear, focused business model and a corporate plan that would gear the business for sustainable value creation

The LFCs will develop/revise their business model and the corporate plan to integrate sustainability principles into it, to ensure the business geared towards generating the desired sustainable value to all the stakeholders and the environment.

Implementation guideline

- A. Ensure management oversight to initiate necessary action to develop green growth policy by educating themselves and the employees on sustainable finance.
 - i. Ensure that Board of Directors and senior management oversee the sustainable finance aspects in an organization.
 - ii. Establish adequate governance to ensure accountability on sustainability issues at the highest levels across the institute
 - iii. Establish proper reporting lines and measurement criteria for sustainable financing
 - iv. Develop a set of common corporate governance principles for financial institutions to facilitate the implementation of sustainable finance Road Map.
 - v. Devise a mechanism to measure performance of their corporate governance practices periodically.
- B. Assess and revise Vision/Mission of the Company if necessary, to embed the essence of sustainability in the company's ultimate future aspiration.
- C. Develop and or revise the business model to validate/align the value proposition, cost-revenue structures , key stakeholder segments, Channels, resources and key activities for desired sustainable value creation.
- D. Assess/revise/develop, goals, strategies and actions to materialize the desired value creation plan in order to achieve the ultimate purpose of the company whilst periodically reviewing them to keep the company in the right strategic direction.
- E. Define roles and responsibilities of the employees in all grades, divisions and Sub divisions cascading the corporate plan down to those levels, to ensure the anticipated long-term value creation

F. Ensure ethical business conduct through properly established policies and procedures in place to manage the same across the company.

- i. Develop an internal code of ethics in all financial institutes encompassing the approach to, protect customer rights, minimize customer discriminations and Curtail unnecessary burden on customers (high penalty rates and high service charges charged from customers)
- ii. Develop a strategy to remove unethical finance business activities (i.e. money laundering, etc.) from company and the finance sector
- iii. Develop a mechanism to raise and capture potential cases of unethical/criminal behavior

2. Sustainability oriented business operations

The LFCs will seek to align their business operations with the sustainable goals of the company while focusing on reaching new segments of the market with innovating and diversifying the types of products and services in a responsible and inclusive manner.

A. Develop and implement an approach for Financial Inclusion, defining the target groups, outreach and processes to facilitate the implementation to increase the access to financial services

- i. Improve access to facilities and services (e.g. strategically located branch network, flexible service hours, improved service accessibility for disabled people, online/virtual services etc.)
- ii. Establish and promote digital financial solutions and transaction facilities
- iii. Provide specific development and growth support to minority or excluded groups (e.g. technical assistance, advisory, training, market linkages);
- iv. Create partnerships with other organizations to increase availability of financial products and services to a wider group

B. Revise policies, procedures and practices to facilitate responsible finance in order to facilitate customer protection against over-indebtedness and financial frauds.

- i. Adopt and implement the Client Protection Framework devised by CBSL
- ii. Advocate and train the ground level staff members on the aspects of responsible finance
- iii. Improve service quality standards to facilitate responsible finance
- iv. Implement programs to increase the financial literacy of the customers and advocate to reduce their vulnerability to over-indebtedness and financial frauds.

- v. Adopt global best practices and standards such as SMART Campaign certification for development finance /microfinance
- C. Maintain a range of inclusive products and services that suits the demand and needs of the customers
- i. Assess the current portfolio through a periodic product portfolio audit to identify the improvement needs and possible value addition
 - ii. Develop specific products and services based on segmental targeting, that are in line with the goals and objectives of the company
 - iii. Introduce new products developed based on the customer needs and demands
 - iv. Acquire internal resource capacity (both financial and human capital) to successfully promote the new products
 - v. Develop and implement a product portfolio management system

3. Risk Management to ensure business continuity and sustainability

NFBIs will assess and manage the external risks posed to their industry and individual companies as a result of broad climatic issues (Climate change), environmental issues (pollution, waste), Social issues, Competitor issues and other external environmental issues.

- A. Develop a customized framework to manage the specific environmental and social risks according to the operations, locations, customers, business activities and contexts, in line with related national and international best practices
- B. Establish customer screening criteria (Eg: Exclusion list, prohibited activities to finance etc) in line with national and international standards
- C. Obtain or develop of an environmental and social risk management system to collect the relevant environmental and social data for periodic monitoring
- D. Establish E&S policies clearly depicting the approach, process and implementation that would adequately address environmental and social risks of the company
- E. Design tools and practical resources to help the ground level staff to appraise and evaluate the environmental and social risks involved with potential customers
- F. Provide training for relevant staff members to create awareness about the potential environmental and social impacts associated with activities of the customers and potential risk to company arising from such impacts
- G. Carry out periodic external (PESTEL) and Competitive risk assessments and produce management reports for the review of the top management

4. Stakeholder Management for improved communication and collaboration

The LFCs will have a process to clearly identify their stakeholders and how they manage different stakeholders, while keep them engaged to realize the vision/purpose of the company.

- A. Develop a Stakeholder Management Policy, clearly indicating the management approach and process.
- B. Establish a comprehensive process for stakeholder communication and feedback with clear objectives, implementation process and monitoring mechanism.
- C. Analyze outcome of engagement and stakeholder feedback to record and report it for necessary decision making.

5. Innovation and digitization for sustainable value creation

The LFCs will embrace innovation making it an integral part of the business while using digitization to support innovation for effective transformation of the traditional businesses into sophisticated cutting-edge entities that are geared for true sustainable value creation.

- A. Develop an Innovation policy encompassing the company's approach for business innovation
- B. Establish a mechanism to evaluate innovation outcomes of the business
- C. Develop/revise the Digitization policy of the company indicating the digitization approach of the company to increase business productivity, efficiency and service quality

6. Complementary Partnerships to promote sector development and contribute towards sustainable development

The LFCs will form complimentary (not competitive) partnerships within and outside the industry to contribute towards sector development as well as to play a leading role in the Finance sector of the country to support national and global sustainability agendas.

- A. Initiate, promote and engage in activities that will build the sector capacity to contribute towards sustainable development
- B. Organize and promote initiatives collectively that would significantly add value to the sustainability agenda of the country
- C. Create partnerships with local and international networks and associations that promotes sustainable development
- D. Establish partnerships with like-minded Development Financial Institutions /Impact investors for sustainable funding avenues and technical assistance programs.

- E. Adopt global best practices or develop a framework that allows transparent Environmental, Social and Economical disclosures through reporting (Eg: GRI/IR frameworks for annual report)

7. Supporting local and global sustainable development efforts

- A. Identify/initiate environmental and social sustainability initiatives, CSR programs that contribute towards sustainable development goals and or national sustainability agenda
- B. Monitor and report the contribution of the company towards the sustainable development periodically
- C. Adopt standards and global best practices to plan and implement activities that promote social and environmental value creation
- D. Build sustainability related new opportunities in communities/geographies and develop strategies to cater to such opportunities.
- E. Develop/launch programs to advocate and increase the awareness of the communities and to engage them to promote environmental and social wellbeing

Adoption and implementation

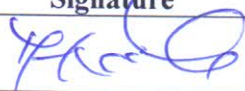
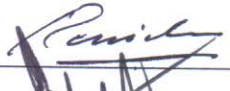



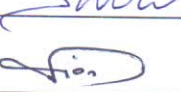
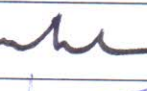




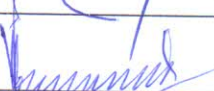


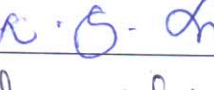
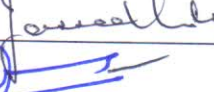





The LFCs will adopt these guidelines to integrate sustainability principles in to their businesses through the following process, followed by monitoring the sustainability performance in line with these guidelines to rectify any further gaps that may prevail.

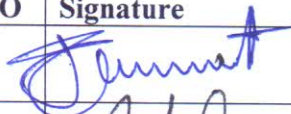
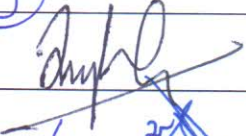
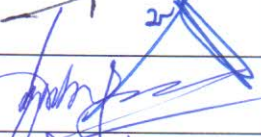
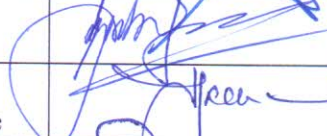
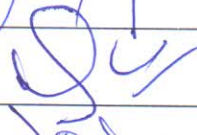
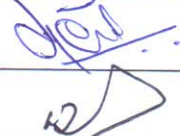

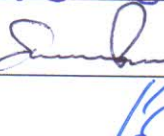
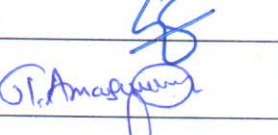

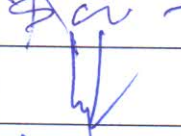
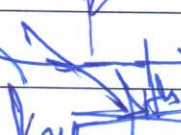
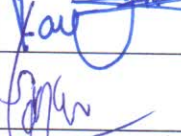

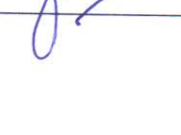



1. Perform a gap analysis and identify the current gaps compared to each guideline
2. Formulate measures to address the gaps
3. Implement the guidelines
4. Monitor periodically (Annually or above)

Reporting

The LFCs shall report the sustainability performance of Company based on the outcomes of the periodic monitoring in a regular and transparent manner and produce the reports to the regulators and other audiences on request.

We hereby pledge to integrate the principles of this LFC sustainability mandate in our business and uphold them in our operations.

Company	Managing Director / CEO	Signature
Abans Finance PLC	Mr Dharshan Silva	
Alliance Finance PLC	Mr Romani De Silva	
AMW Capital Leasing and Finance PLC	Mr. Chamath Munasinghe	
Arpico Finance Co. PLC	Mr Chandrin Fernando	
Asia Asset Finance PLC	Mr Rajiv Gunawardena	
Associated Motor Finance Co. PLC	Mr. T M A Sallay	
Bimputh Finance PLC	Dr. Niranjan Pathmanathan	
Central Finance Co. PLC	Mr Eranjith Wijenaik	
Citizens Development Business Finance PLC	Mr Mahesh Nanayakkara	
Commercial Credit and Finance PLC	Mr Roshan Egodage	
Commercial Leasing and Finance PLC	Mr Krishan Thilakarathne	
Dialog Finance PLC	Mr Asanga Priyadarshana	
Fintrex Finance LTD	Mr Jayathilake Bandara	
HNB Finance PLC	Mr Chaminda Prabhath	
Ideal Finance LTD	Mr Duminda Weerasekera	
Kanrich Finance LTD	Mr Shiran Weerasinghe	
Lanka Credit and Business Finance LTD	Mr K G Leelananda	
L B Finance PLC	Mr Sumith Adhihetty	
LOLC Development Finance PLC	Mr Rohan Kumara	
LOLC Finance PLC	Mr Conrad Dias	
Mercantile Investment & Finance PLC	Mr Gerard Ondaatjie	

Company	Managing Director / CEO	Signature
Merchant Bank of Sri Lanka & Finance PLC	Mr Jude Gamalath	
Multi Finance PLC	Mr Pushpike Jayasundera	
Nation Lanka Finance PLC	Mr Suresh Amarasekera	
Orient Finance PLC	Mr K M M Jabir	
People's Leasing and Finance PLC	Mr Shamindra Marcelline	
People's Merchant Finance PLC	Mr Nalin Wijekoon	
Prime Finance PLC	Mr Maduranga Heenkenda	
Richard Pieris Finance LTD	Mr Lohika Fonseka	
Sarvodaya Development Finance LTD	Mr Nilantha Jayanetti	
Senkadagala Finance PLC	Mr Lakshman Balasuriya	
Serendib Finance LTD	Mr Upul Dissanayaka	
Singer Finance (Lanka) PLC	Mr Thushan Amarasuriya	
Sinhaputhra Finance PLC	Mr Chandika Weerakoon	
Siyapatha Finance PLC	Mr Ananada Seneviratne	
Softlogic Finance PLC	Mr Priyantha Wijesekera	
Trade Finance & Investments PLC	Mr L A J F Morais	
UB Finance Co. LTD	Mr Ransith Karunaratne	
Vallibel Finance PLC	Mr Jayantha Rangamuwa	
The Finance Houses Association of Sri Lanka	Mr Niroshan Udage	