

**DFCC Bank PLC**

# **Green Bond Framework**

**August 2024**



# 1 INTRODUCTION

## 1.1 DFCC Bank PLC

**DFCC Bank PLC (“DFCC” or “the Bank”)**, was established in 1955 as Sri Lanka’s pioneer Development Finance Institution. As its shares were also listed in 1955, it is also the oldest listed bank in Sri Lanka. While DFCC was set-up by the Government of Sri Lanka, majority ownership has always been with the private sector. In 2015, the DFCC merged with its subsidiary - DFCC Vardhana Bank, and became a ‘Licensed Commercial Bank’ providing a full gamut of banking services. With its vision “to be the leading financial solutions provider sustainably developing individuals and businesses”, DFCC is committed to the promotion of sustainable development.

DFCC is the pioneer financier of the private sector Renewable Energy (RE) Sector in Sri Lanka, financing the country’s first grid connected mini hydropower project in the mid 90’s and co-financing the first grid-scale wind, solar and waste-to-energy projects. The bank implemented two World Bank & Global Environment Facility funded RE projects, which are widely hailed to have transformed the energy sector landscape in Sri Lanka.

In July 2023, DFCC became the first organization in Sri Lanka to be an Accredited Entity of the **“Green Climate Fund”<sup>1</sup> (GCF)**. The GCF, setup under the UNFCCC, is the world’s largest fund for climate action. DFCC is accredited to design and implement projects/programmes with a value of up to USD 250 million using a mix of loans, equity and guarantees.

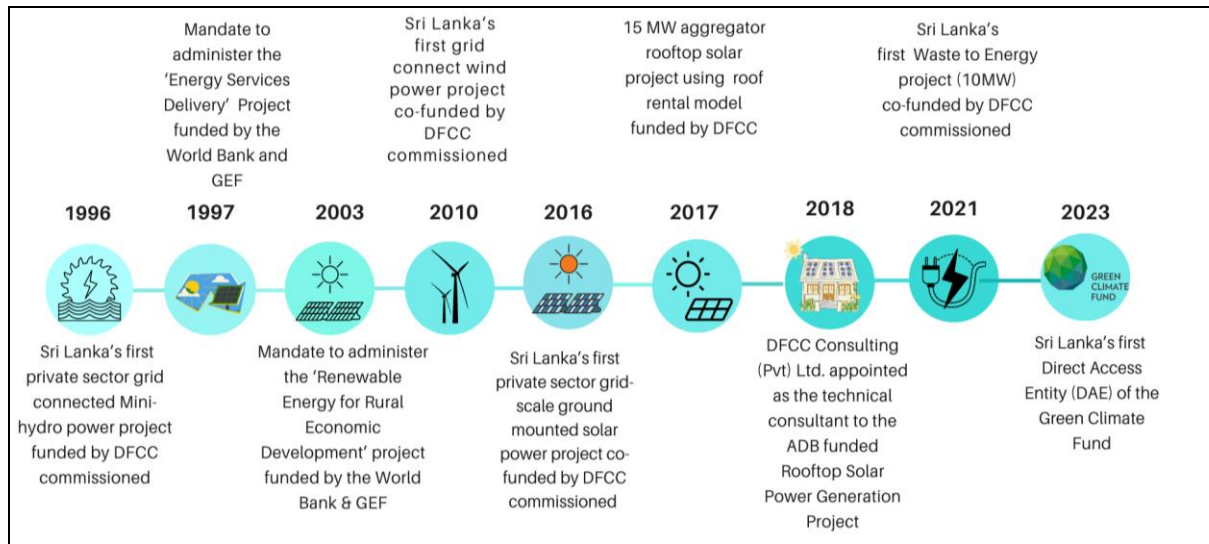


Figure 1: DFCC Bank's Green Financing Journey

DFCC is an initial signatory to the eleven **“Sustainable Banking Principles”<sup>2</sup>** of the **Sri Lanka Banks' Association (SLBA)** under its **Sustainable Banking Initiative (SBI)** and is committed to adopting these Principles in its operations.

<sup>1</sup> <https://www.greenclimate.fund/>

<sup>2</sup> <https://sustainablebanking.lk/>

## 1.2 Sustainability Strategy and Policies

In 2020, the DFCC developed and obtained Board approval for its first formal Sustainability Policy, Strategy and Plan for the period 2020 to 2030 (the ‘Sustainability Strategy’). The main features of DFCC Sustainability Strategy are depicted in figure 2 below:

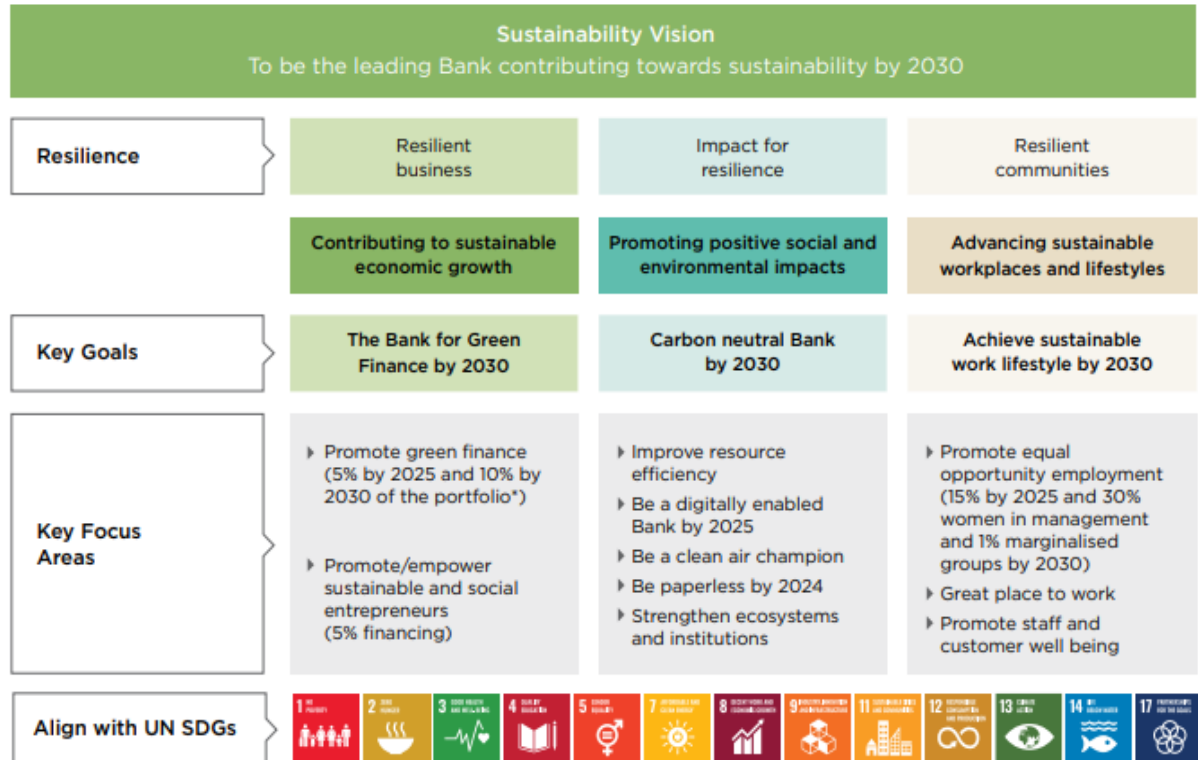


Figure 2: DFCC Sustainability Strategy

One of the three key goals under the Sustainability Policy is to be **“the Bank for Green Finance”**, with a key focus on promoting sustainable and green finance, as well as promoting and empowering sustainable entrepreneurs.

## 1.3 Environment, Social and Governance (ESG) Policy

The Board of DFCC Bank approved a new **Environment, Social and Governance (ESG)** Policy in August 2024. The primary objective of this policy is to articulate how DFCC integrates ESG considerations into its decision making and operations to effectively manage environmental and social risks and impacts and improve outcomes when carrying out its business activities. The policy serves as the foundation within which the Sustainability Strategy, and the objectives and procedures of the Bank’s **Environmental and Social Management System (ESMS)**, described in section 1.5 below, are anchored.

The Bank is also preparing for adoption of the new Sri Lanka Financial Reporting Standards - SLFRS S1 (General Requirements for Disclosure of Sustainability-related Financial Information) and SLFRS S2 (Climate-related Disclosures).

## 1.4 Governance Structure

The **Executive Sustainability Management Committee (ESMC)** headed by the Chief Executive Officer (CEO) is responsible for driving the DFCC Sustainability Strategy. There are various task forces established under the ESMC, such as the Green Finance Task Force and the Sustainable Entrepreneurship Task Force that report to it. The Green Finance Task Force is responsible for enabling the achievement of the Bank's 'Green Finance' targets.

The **Sustainability Unit (SU)** is a unit of the Bank, responsible for implementing the Sustainability Strategy, the ESMS and Corporate Social Responsibility (CSR) activities. It reports on the implementation of the Sustainability Strategy to the ESMC and to the Board of Directors on a periodic basis. If the proceeds are not utilized immediately upon the receipt of funds, proceeds of the Green Bond, will be invested in cash, cash equivalents and/or government securities, in accordance with the Bank's cash management policies at the prevailing rates.



Figure 3: Sustainability Governance Structure

## 1.5 Environmental & Social Management System (ESMS)

DFCC's major Environmental & Social impacts (E&S) tend to be indirect, arising from the provision of financial facilities to sensitive projects in various sectors. Some otherwise beneficial projects can create unfavorable impacts on both the environment and society and expose the bank to several risks. In this regard, the bank has a comprehensive **Environmental & Social Management System (ESMS)** in place to ensure E&S aspects are an integral part of project appraisal and follow up activities. The design of the ESMS incorporates all **eight IFC Performance Standards (PS)**<sup>3</sup>.

<sup>3</sup> <https://www.ifc.org/en/insights-reports/2012/ifc-performance-standards>.

## 2 GREEN FINANCE FRAMEWORK

In furtherance of the objective of its goal of being “the Bank for Green Finance”, DFCC decided to issue listed ‘Green Bonds’ (initially to be listed on the Colombo Stock Exchange) with the specific objective of raising funds to finance and/or refinance a portfolio of on-shore solar power generation projects.


The proposed Green Bonds will be issued under this framework which aligns with the **Green Bond Principles** (June 2021, with June 2022 Appendix)<sup>4</sup> of the **International Capital Market Association (ICMA)**.

### 2.1 Use of Proceeds of Green Bonds

The proceeds of the Green Bond will be used specifically for:

- (a) Financing the establishment, acquisition, expansion, and/or ongoing management of on-shore ground and rooftop mounted solar photovoltaic (PV) power generation facilities and
- (b) Refinancing existing on-shore ground and rooftop mounted solar photovoltaic (PV) power generation facilities provided such projects were approved for financing by the Bank and were commissioned within a two (2) year ‘look back’ period from the date the project was earmarked for funding by the proceeds of the particular Green Bond.

All such solar PV facilities shall conform to the requirements of the **Sri Lanka Green Finance Taxonomy (May 2022)**<sup>5</sup> (SLGFT).

| Eligible Projects / Criteria  | SLGFT Eligible Category | Intended Environmental benefit  | Contributions to UN SDG  |
|---|-------------------------|---|--|
| Ground and rooftop mounted Solar PV electricity generation projects conforming to the requirements of the Sri Lanka Green Finance Taxonomy (May 2022) (including mounting structures, transmission infrastructure, grid connections and other supporting infrastructure including inverters, transformers, energy storage systems and control systems). | M4.1 and M6.9           | Climate Change Mitigation through avoidance of Greenhouse Gas emissions | <br>7 AFFORDABLE AND CLEAN ENERGY |

**100%** of the electricity generated from the financed projects, shall be from solar energy resources.

### 2.2 Sri Lanka NDCs

<sup>4</sup> <https://www.icmagroup.org/assets/documents/Sustainable-finance/2022-updates/Green-Bond-Principles-June-2022-060623.pdf>

<sup>5</sup> [https://www.cbsl.gov.lk/sites/default/files/cbslweb\\_documents/sl\\_green\\_finance\\_taxonomy.pdf](https://www.cbsl.gov.lk/sites/default/files/cbslweb_documents/sl_green_finance_taxonomy.pdf)

The projects will help Sri Lanka to achieve its Nationally Determined Contributions (NDC) target for RE under the 'Paris Agreement'. i.e., "Target: Develop an additional capacity of 3,867 MW renewable energy over the RE capacity considered in a Business-As-Usual scenario, out of which approximately 950 MW are on an unconditional basis and 2,917 MW on a conditional basis".

## 2.3 Process for Project Evaluation & Selection

### New Projects:

Applications for funding are initially screened against the Bank's 'Exclusion List'<sup>6</sup> and credit evaluations will be performed by lending units. The lending units will then recommend to the Sustainability Unit, certain solar PV projects as suitable to be financed by the proceeds of the Green Bonds issued under this framework. The Sustainability Unit will screen the recommended projects against the Bank's E&S safeguard standards, and evaluate the projects for eligibility under the framework as described in 2.1 above. Once screened, the projects will be earmarked by the Sustainability Unit for financing by the proceeds of the Green Bond. Thereafter, the Integrated Risk Management Department will carry out an overall risk evaluation and submit the credit facility for approval by the Board of DFCC Bank or the relevant delegated authority.

### Refinancing of Existing Projects:

Existing projects proposed for refinancing will be recommended by the lending units and evaluated for eligibility under the Green Bond framework by the Sustainability Unit. Thereafter, they will be earmarked for financing by the proceeds of the Green Bond.

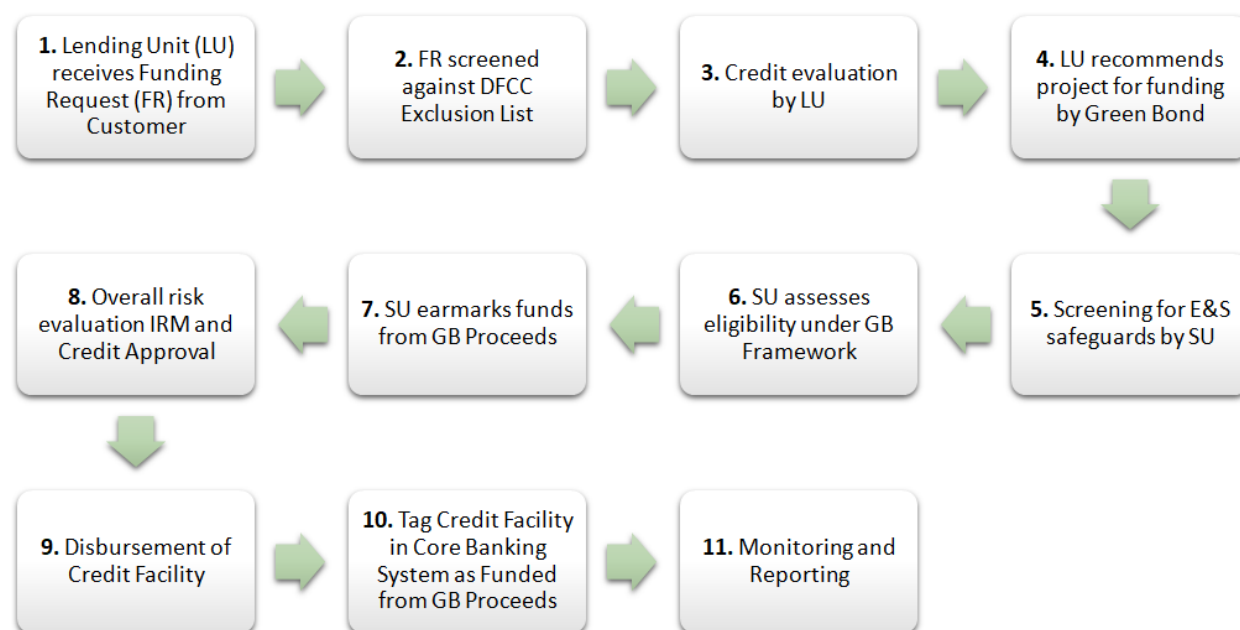


Figure 3: Process Flow

If any funded project fails for any reason, be it technical, managerial, regulatory or other; the particular project will be removed from the funding allocation and replaced with another project as proposed by the lending unit and approved by the Sustainability Unit. The Bank will also ensure that all projects are in continued compliance with E&S safeguards as per the ESMS, during the life of the

<sup>6</sup> Please refer Annex 1 - DFCC Exclusion List

financing facility. If any E&S issues arise from any funded project, the borrower shall be requested to take corrective action in accordance with the provisions of the loan agreement, and if the matters are yet unresolved, it shall be replaced by another project.

### 3 MANAGEMENT OF PROCEEDS

The proceeds of the Green Bond will be managed by DFCC's Treasury, and fund allocations to specific projects will be done by the Treasury following specific recommendations from the Sustainability Unit. The Treasury will maintain a schedule of projects that are financed and/or refinanced with the proceeds of the Green Bond. Once disbursed, the Credit Services Department will tag the earmarked solar projects in the Bank's core banking system.

Pending loan disbursement, the unallocated proceeds of the Green Bond, will be temporarily invested in cash, cash equivalents or Sri Lanka Government securities on a per Green Bond basis, in accordance with the Bank's cash management policies. The unallocated proceeds will be tracked in a separate internal accounting system. It is expected that the Green Bond proceeds will be fully allocated within a period of 18 months from the date of bond issuance.

The Bank will follow internal procedure manuals for the management of proceeds.

### 4 REPORTING

The Treasury and the Sustainability Unit will prepare and submit allocation and impact reports to the ESMC and to the Board on a periodic basis. Any changes to the overall portfolio considered under the Green Bond, or removal and addition of individual projects from the Green Bond portfolio will have to be cleared by the Sustainability Unit.

DFCC will publicly disclose the allocation of proceeds and impacts of the Green Bonds in its Annual Report on an aggregate portfolio basis and will not include details of individual projects funded. The Annual Report is published on the DFCC Bank website ([www.dfcc.lk](http://www.dfcc.lk)) and the Colombo Stock Exchange website ([www.cse.lk](http://www.cse.lk)).

DFCC will make and keep, readily available, up to date information on the use of proceeds to be reviewed annually on a timely basis in case of material developments.

#### 4.1 Allocation Reporting

A detailed internal report will be generated by the Treasury and prepared together with the Sustainability Unit on a quarterly basis until full allocation of proceeds, and thereafter on an annual basis. The following information will be included in the internal report:

- A list of solar projects allocated under the green bond, with specific information related to the projects, allocated amounts, etc.
- Proportion of new and refinanced projects

- Remaining unallocated proceeds

## 4.2 Impact Reporting

DFCC will use quantitative performance measures and disclose key underlying methodology and/or assumptions used in the quantitative determination. DFCC will also refer to and adopt, where applicable, the guidance and impact reporting template provided in the ICMA Harmonized Framework for Impact Reporting.

The environmental impact of each funded solar project will be measured and reported by collecting on an annual basis the;

- a) Capacity/Additional Capacity of the solar power generation plant in kW/MW.
  - b) Annual electricity generation data kWh/MWh
- and
- c) Calculating the annual Greenhouse Gas (GHG) emissions reduced/avoided in tonnes of CO<sub>2</sub> equivalent.

## 5 EXTERNAL REVIEW

DFCC will obtain a Limited Independent Assurance Statement of this Green Bond framework from a reputed Independent External Verifier, confirming its alignment with the ICMA Green Bond Principles prior to the Green Bond issuance.

The Independent External Verifier will also issue a Post Issuance Assurance Report. The Post Issuance Assurance will include a review of the internal processes and controls, allocation reports and impact reports, and will be performed after 12 months following the issuance of the Green Bond.

Thereafter, the annual allocation reports and impact reports will be reviewed by the Independent External Verifier. These reports in abridged form, including the external review, will be published in the DFCC Bank website.

## 6 UPDATING OF THE GREEN BOND FRAMEWORK

DFCC Bank will update this framework as and when required, and such updates will be published on its website. At a future, date where relevant, it may also be replaced with a broader Sustainable Finance framework.. These changes will follow DFCC's internal processes and the relevant globally recognized standards, guidelines and best practices.



## ANNEX 1: DFCC EXCLUSION LIST

1. Production or activities involving harmful or exploitative forms of forced labor<sup>7</sup> / harmful child labor<sup>8</sup> and human rights abuses (including that of indigenous and / or vulnerable groups)
2. Production of or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements, or subject to international phase-outs bans, such as pharmaceuticals, pesticides and herbicides, ozone depleting substances, polychlorinated biphenyls (PCB's)<sup>9</sup> and other hazardous chemicals, wildlife or wildlife products regulated under CITES (Convention of International Trade in Endangered Species of Wild Fauna & Flora) and Trans-boundary trade in waste or waste products.
3. Production or trade in weapons and munitions<sup>10</sup>, including military equipment financing.
4. Gambling, casinos and equivalent enterprises<sup>10</sup>
5. Production or trade in radioactive materials<sup>11</sup>
6. Production or trade in un-bonded asbestos fibers<sup>12</sup>
7. Commercial logging operations or the purchase of logging equipment for use in primary tropical moist forests or old-growth forests, deforestation and land clearance by burning
8. Marine and coastal fishing practices, such as large-scale pelagic drift net fishing and fine mesh net fishing, harmful to vulnerable and protected species in large numbers and damaging to marine biodiversity and habitats and / or use of any other illegal fishing methods, e.g. dynamite fishing
9. Ethically / morally controversial projects / activities, e.g. animal testing, sex trade, abortions, money laundering, terrorist financing, human trafficking, arms smuggling
10. Adversely affecting UNESCO World Heritage Sites or national and / or international protected areas and wetlands
11. Coal power plants

**Advances to the above activities/sectors are prohibited.**

<sup>7</sup> All work or service, not voluntarily performed, that is extracted from an individual under threat of force or penalty

<sup>8</sup> Employment of children whose age is below the country's statutory minimum age of employment or employment of children that is economically exploitive, or is likely to be hazardous to, or to interfere with, the child's education, or to be harmful to the child's health, or physical, mental, spiritual, moral, or social development

<sup>9</sup> A group of highly toxic chemicals, polychlorinated biphenyls are likely to be found in oil-filled electrical transformers, capacitors, and switchgear dating from 1950 to 1985

<sup>10</sup> This does not apply to project sponsors who are not substantially involved in these activities. "Not substantially involved" means that the activity concerned is ancillary to a project sponsor's primary operations

<sup>11</sup> This does not apply to the purchase of medical equipment, quality control (measurement) equipment and any equipment where IFC considers the radioactive source to be trivial and/or adequately shielded

<sup>12</sup> This does not apply to purchase and use of bonded asbestos cement sheeting where the asbestos content is less than 20%