



SDG IMPACT FACILITATION



REPORT ON KEY FINDINGS FROM SRI LANKA SDG INVESTOR MAP SECTOR DEEP-DIVES

Conducted in: December 2022 and February 2023

May 2023



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Background

UNDP Sri Lanka and UNDP’s SDG Impact team, in partnership with the Sustainable Development Council of Sri Lanka and the Board of Investment launched the Sri Lanka SDG Investor Map (the “Map”) on 30 August 2022. The Sri Lanka Investor Map has been developed through a consultative process with the support of Ceylon Chamber of Commerce as the knowledge partner, with 50+ government stakeholders, think tanks, enterprises and leading impact and commercial investors to produce tangible market intelligence which can galvanize private sector investment and mobilize global private capital towards SDGs aligned investments.

SDG Investor Map for Sri Lanka is an important document that clearly lays down investable opportunities in SDG enabling sectors that have the potential to create deep development impact as well as provide favorable commercial returns to investors.

The methodology consists of a four-stage process that draws from a combination of in-depth desk research and focused in-country stakeholder consultations. Through an iterative research-intensive process, the objective is to identify and validate where there is overlap between development need and policy priority and refine the opportunity into a specific Investment Opportunity Area.

The Sri Lanka SDG Investor Map identifies 15 investment opportunity areas across 5 key sectors which include, Healthcare, Renewable Energy, Food & Beverages, Consumer Goods, and Infrastructure. Technology, Gender, Education, and climate are cross-cutting themes that were explored for every sector, sub-sector, and investment theme. The market intelligence produced by the Map aims to help in navigating Sri Lanka’s current complex economic crisis as well as provide support in the post-COVID-19 context. The Map is especially critical in the current times as the country’s political and civil society systems are gearing up for economic revival, combatting the ongoing debt crisis and looking at the best way to engage with stakeholders for optimal results.

Figure 1: Investment Opportunity Areas identified in the Sri Lanka SDG Investor Map

Renewable Energy

1. Grid-connected solar power generation
2. Grid-connected wind power generation
3. Sustainable Fuelwood Plantation (SFP) for solid biofuel production
4. Biomass terminals/depots for solid biomass fuel (Biofuel) production, primarily based on Sustainable Fuelwood Plantations (SFPs).
5. Deployment of Solid Biofuel fired Improved Cook Stoves (ICs) in the Domestic Sector.
6. Deployment of Improved Biomass Energy Technologies for Thermal Energy Applications in MSMEs and Institutions.

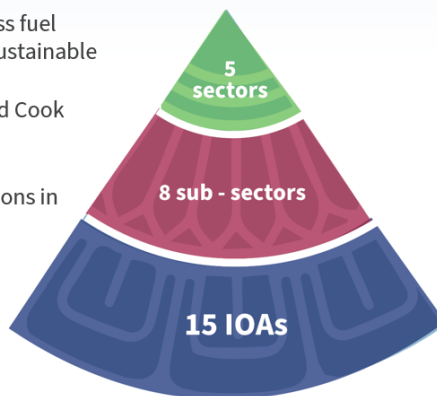


Healthcare

1. Manufacturing of Pharmaceuticals
2. Healthcare professional training academy



Sri Lanka SDG Investor Map



Consumer Goods

1. Development of Fabric and textile manufacturing



Infrastructure

1. Material Recovery Facilities for Recyclable Solid Waste
2. Deploying Biogas digesters for Local Authorities (LAs), institutions/commercial sector and households with end-use energy applications.



Food & Beverage

1. Input side digital platforms to serve farmers
2. Development of smart information systems to improve knowledge and accessibility for laboratories
3. Cold Chain Storage for Agriculture
4. Development of sustainable commercial-scale aquaculture



To apply the insights from the Sri Lanka SDG Investor Map, UNDP and its collaborators have put together a short-term to long-term activity plan that will leverage partnerships to further unpack and tackle issues and challenges that block the flow of capital towards SDGs in the country. As part of this initiative, sector deep dive workshops were organized (**Renewable Energy and Food & Beverages (F&B) sectors** on 8th December 2022; and **Healthcare, Consumer Goods, and Infrastructure** on 21 February 2023) to bring together key stakeholders to discuss triggers and barriers to investments in the identified Investment Opportunity Areas.

Event: Structure and Objective

Like many other countries, Sri Lankan economy has been impacted by the COVID-19 pandemic, with its GDP growth contracting to 3.6% in 2020 due to a significant slowdown in tourism earnings which is a key source of dollar income for the country. While the economy recovered in 2021 with a growth of 3.7%, tourism and international reserves are yet to return to pre-pandemic levels.

On 20 March 2023, The IMF Board approved a 48-month extended arrangement under the Extended Fund Facility (EFF) of SDR 2.286 billion (about US\$3 billion) to support Sri Lanka’s economic policies and reforms. In this backdrop, it is imperative for Sri Lanka to mobilize other forms of capital inflows, such as private capital and foreign direct investment, to support its economic recovery and growth.

UNDP’s SDG Impact initiative seeks to catalyse financial investments from the private sector that advance the SDGs. As interest grows among private sector actors to align investment activity with the SDGs, there is a demonstrated need for unifying standards, tools, and services that can be relied upon by investors to support a process of targeting, measuring, and achieving development outcomes.

The SDG Investor Map for Sri Lanka adequately captures the investment and policy momentum to capture profitable and impactful market intelligence that can contribute positively to the SDGs.

Realizing that financial transactions for the SDGs will necessarily require a deeper understanding of existing points of entry as well as ecosystem-level barriers to investments, UNDP Sri Lanka and UNDP’s SDG Impact team, in partnership with the Sustainable Development Council of Sri Lanka and the Board of Investment, conducted 2 separate Workshops – “**SDG Enabling Investments in Sri Lanka: A Sectoral Perspective**” – on 8th December 2022 and 21st February 2023, following the launch of Sri Lanka’s SDG Investor Map (the “Map”) on August 30th, 2022.

The workshops were structured as 1.5 hour-focused group discussions to deep dive into each sector, covering 15 Investment Opportunity Areas (“IOAs”) and business models. Each session began with a Plenary Discussion comprising:

| 8 December 2022 | 21 February 2023 |
|--|---|
| Opening remarks from Chamindry Saparamadu, Sustainable Development Council and Prasanjith Wijayatilake, Board of Investment of Sri Lanka | Opening remarks by Azusa Kubota, Resident Representative of UNDP Sri Lanka, Chamindry Saparamadu, Director General, Sustainable Development Council, Renuka Weerakoon, Director General, Board of Investments Sri Lanka |
| Introduction to SDG Investor Map by Dulani Sirisena | Presentation on Sri Lanka’s SDG Investor Map by Dulani Sirisena, SDG Integration Specialist, UNDP Sri Lanka |
| Context setting and Introduction to UNDP SDG Impact and by Devahuti Choudhury | Context setting and Introduction to UNDP SDG Impact and by Devahuti Choudhury |

The objective of each break-out session was to:

Identify and discuss key **opportunities** within each sector to generate ideas about how to best balance business and impact goals;

Identify policy and market **barriers to scale**, as well as potential **mitigating factors**; and

Determine what the **future of investment** in these areas would look like - including tangible activities that UNDP can spearhead with its collaborators to facilitate capital flows in each sector.

These broad areas of discussion were aided by in-depth research based on the SDG Investor Map for Sri Lanka, and structured questionnaires prepared by the Moderators and Co-moderators.

During our discussion, some of the underpinning themes of digitalization, climate, gender, and marginalization were also covered to explore how each IOA may potentially impact these areas.

The 2 events were attended by 91 representatives (27 attendees in December'22; and 64 attendees in February'23) of Financial Institutions (FIs), investors, corporates and academic institutions that operate in Sri Lanka, across the investment opportunities that have been identified for Sri Lanka in its SDG Investor Map.

Note: This report captures qualitative insights gathered from groups of experts engaged in the two events. Opinions and recommendations reported here are an aggregated synthesis of the discussions that took place.

High-Level, Cross-Cutting Insights from Sri Lanka:

Through our sector deep-dive discussions, the following are some observations that cut across the two sectors that were under discussion:

Policy intervention to facilitate private sector participation: Offering a conducive environment for investors is imperative to encourage investment in Sri Lanka. This can be done by simplifying procedural or regulatory norms and by forming one consolidated governing entity for both investors and businesses. Additionally, establishing a standardised regulatory framework and resolving prevailing tariff issues in sectors like Renewable Energy can help in attracting investors to the sector, including impact investors who have the appetite to service a strong impact thesis along with commercial viability of companies.

A commitment to move towards creating a more inclusive policy space can be seen through the cabinet appointed committee on Power Sector reforms that has recommended the split of Ceylon Electricity Board [CEB] into 15 companies to attract serious investors into the sector and to work towards a procurement process that is competitive, transparent, and fair.

There are challenges related to cohesiveness and ease of doing business in the agriculture sector due to multiple ministerial and agency sanctions required, thereby making business and investments unattractive. Establishing one consolidated entity and a standardised regulatory framework to handle agricultural interests – including advocacy and investment – would help in resolving this issue. Furthermore, inconsistency in policy framework is a major problem requiring immediate redressal. Experts in the room suggested the setting up of a high-level steering committee, comprising 70% participation from the private sector and a minority participation of ~30% from public sector to come up with a speedy resolution.

A robust and sound policy framework is required to address the fundamental issues in the Healthcare sector to encourage private investment. WHO and the Government of Sri Lanka (GOSL) are in talks to initiate the development of a roadmap for Sri Lanka to strengthen the Healthcare sector. To reduce the risk for investors while operating in this industry, a 10 to 15-years policy should be developed and implemented. The Ministry of Health (MoH) can take the lead to develop this policy in collaboration with WHO.

Building a foundation for a self-sustainable future:

Renewable Energy: Stabilized energy sector is one of the prerequisites for economic development across all economies. To achieve self-sustainability through renewable energy by 2050, Sri Lanka needs to adopt a more accelerated and aggressive implementation process. For instance, the promotion of rooftop solar projects can serve as a more cost-effective and faster way of implementing solar initiatives at the pan-country level than commercial or industrial-grade solar projects which take up to 2-3 years to set up. According to experts, the speed of such investments is also possible in the current climate where many policy levers for the Renewable Energy sector are still coming together.

Food and Beverages: Development of F&B sector is imperative for addressing issues such as malnutrition, food security and low export revenue due to excessive reliance on import of food products. This has gained more importance following the financial crisis as a survey showed that 70% of households reduced their food consumption to hold onto their dwindling savings. Significant import dependence even for basic food essentials needs to be offset by bolstering the agriculture sector in the country.

Consumer Goods: In 2022, ~46% of Sri Lanka's total export earnings originated from the apparel sector, thereby generating the second-highest amount of foreign exchange, along with 400,000 direct and 2 million indirect job opportunities, which significantly contribute to the country's overall employment rate. The sector has set key precedents from an economic and inclusion perspective by the industry's support for employment generation and harnessing the talent of the country's rural areas by establishing factories all throughout Sri Lanka under the concept of "Rural Empowerment" that has impressed the global apparel chains. However, gaps in data around wage parity, quality and sustainability certifications remain that can help drive a deeper impact and revenue potential for the sector. Programmes like Women Go Beyond aim to empower women by focusing on reproductive health and rights, skill development, combating gender-based violence and promoting career advancement. Additionally, commercial banks also promote sustainability in financing by focusing on SMEs, MSMEs and women banking.

Infrastructure: The process of waste management in Sri Lanka must be made more transparent and streamlined while increasing the collection of data and its usage while making business decisions as obtaining confidence of international agencies is difficult with insufficient data. Players like, Serendib Assets, collaborate with plastic recyclers and the R&D teams of larger corporates to come up with a strategy to improve waste disposal methods. A sustainable mechanism needs to be identified to collect waste without damaging the environment. Moreover, actual waste collection is less than the estimated collection due to monopolization of collection by illegal entities that are active in this space. Thus, improved data collection, waste mapping and waste audit are essential for building a strong waste management system.

Healthcare: Only 15% of domestic pharma requirement is manufactured locally, resulting in a significant outflow of capital towards import of essential drugs. Stakeholders participating in the consultation mentioned that while the sector is tightly regulated, this works to the benefit of investors and pharma companies since it assures high quality of the product output. However, from a policy standpoint, there needs to be a better direction towards making the sector competitive for exports. Investors observe that it is cheaper to import medicines than to manufacture them locally. In addition, government as the sole off taker is a high risk given the halt on the buyback agreement. This has a significant implication on investor sentiment for the sector. For example, as part of government's buyback mandate, preference is given to State Pharmaceutical Manufacturing Corporations (SPMCs) that supply 88 products to the Medical Supplies Division under the Health Ministry. This puts private sector manufacturers at a disadvantage.

The economic crisis has also led to skilled workforce patriating abroad for income opportunities. This has impacted the healthcare sector. Training and accreditation remain extremely fragmented due to which private sector businesses are not able to scale opportunities despite potential for impact and commercial returns. Stakeholders also mentioned the significant governance issues in navigating bureaucratic hurdles that can defeat intention and motivation of private sector players.

Foreign currency financing: Currently, prevailing currency devaluation has resulted in high energy prices in Sri Lanka. This impacts investments across sectors. However, these issues are likely to be resolved in future, normalizing for example the energy pricing in Sri Lanka, at par with international standards. To attain competitive tariffs, Rupee tariffs may not be sufficient alone, and procuring dollar funding should be given more emphasis. To offset such challenges, opportunities with new avenues for concessional financing, sustainable tariff methodologies and other kinds of more competitive structures should be explored to attract more investors.

Under Consumer Goods sector, affordable financing or blended financing structures should be made available to large corporations, especially the ones that can afford to pay back dollar debt. For example, while obtaining a loan at ~2-5% concessional financing rate, a bank would normally finance the risk of currency depreciation while lending for rupee businesses. However, if companies like Brandix and MAS can afford to invest in dollars, increased dollar funding can ultimately contribute to rebuilding dollar reserves.

Traditional funding in Sri Lanka: Banks are often required to provide working capital for funding local companies. However, majority of them failed due to the following reasons:

incapability of locking-in equity after the initial working capital was fully utilized.

for investment opportunities such as biofuels, significant demand arising from the electricity crisis that caused farmers to raise prices for biomass raw materials. Such high costs were the prime cause of failure for these powerplants.

transportation issues arising from the sources of raw materials also drive the costs to unmanageable levels. This is because necessary raw materials must be transported from other provinces to manufacturing units.

Such inconsistencies and fragmentations have led to de-facto undermining of assumptions based on which companies apply for loans and banks are able to justify their disbursements. Unless these systemic issues are smoothed, such investments will continue to remain extremely high risk.

Green financing opportunities:

The country rate will invariably be a restriction for green bonds. However, development organizations like DFCs can support by offering credit guarantees. For instance, if a business-like MAS declares it wants to list a green corporate debt instrument, it will be constrained not just by MAS's credit rating but also by the country rating.

The Green Climate Fund - DFCC is currently working to obtain accreditation. Potential programs and funding may be available that could be accessed by submitting concept notes.

Role of philanthropic capital: Given the current situation, it is more important than ever to utilize the incoming aid and commitments of philanthropic capital to create a segue for private sector investments in the medium to long term. Many opportunities discussed for both Renewable Energy and Agriculture require philanthropic capital for supporting SMEs' survival in the short term, but the experts cautioned that such capital should be structured to make such businesses competitive in the medium to long term at which point more commercial deployments can take over. This will ensure a stronger commitment to aid institutions and the support that they provide, while also bolstering investor confidence in the longer term.

Forging meaningful partnerships: Ecosystem strengthening through intelligent fund deployments [philanthropic + commercial] will necessarily require different parties to come together with clear roles, responsibilities, and commitments.

In the immediate term, **aid providers and donors** have a key role to play to help businesses revive, rebuild and grow. For some of the R&D related challenges in the sectors under discussion, the experts also pointed to the role of philanthropic capital in strengthening research and data analytics related capabilities.

Policy makers need to pivot and ensure that key steps are taken to help the private sector [domestic, regional and global] ease their presence in key SDG enabling sectors that can contribute to Sri Lanka's

recovery. For instance, if policy intervention allows more players to enter the healthcare market, it can result in employment generation, thereby contributing to mitigation of brain drain crisis in Sri Lanka. Approximately 70% of Sri Lanka's workforce consists of graduates who can be trained to contribute in meeting the global demand of ~15 million jobs requiring nurses, assistant physicians and similar roles in the healthcare sector.

Commercial investors will necessarily need to accompany their investments through technical assistance that can be a point of entry to support local businesses and to improve their ability to invest.

Investors can also leverage the **presence of a decentralized system of business networks** that have a rich and in-depth understanding of the local context within which businesses work including a keen understanding of solutions that can help resolve barriers to investments.

Some of the additional inputs required to scale up from the perspective of decision makers or/and policy advocates include:

Data driven decision making for investors to identify profit potentials, with specific emphasis on the supply side. Organizations promoting investment (BOI, UNDP) should be able to provide data-backed evidence to gain investor support.

As per Market Development Facility (MDF), customers expect relevant state institutions and policy advocates to discuss the possibility of **establishing a framework for certification** which would serve as evidence of sustainable sourcing of biomass.

Snapshot of Sectoral Findings

Renewable Energy – Grid Connected Solar and Wind Power

| Financing Model | Ecosystem Development | Investor Activation | Policy Reform/Advocacy |
|---|---|---|--|
| <ul style="list-style-type: none"> Policy interventions offering concessional financing for consumers to install solar rooftops or electricity cost rebates in case of transferring back electricity to the grid may encourage buyer-side momentum in this space. Blended financing is viable for Solar PV plants under IPP or PPP schemes. | <ul style="list-style-type: none"> Sri Lanka is facing difficulty in attracting large scale solar development investments due to inadequacy of documents, lack of transparency and arduous laws. Government intervention in the form of establishing a policy framework and simplification of laws can help in addressing such issues. It is imperative to identify ways of increasing energy generation without adding more pressure on grid expansion. CEB has agreed to connect 2,600 megawatts of renewable energy without any large expansions. Additionally, 4600 megawatts of renewable energy have been identified to be reconnected by 2030 to reach the 70% electricity, decarbonizing target. Solar rooftop developers need to take appropriate steps to lower their costs by employing locally available raw materials and value additions. As per experts, solar rooftop is the easiest and the fastest way of expanding RE without requiring foreign funding and thereby, boosting the economy, especially in the immediate term. Additional intervention from the government can help in achieving solar rooftop expansion targets. Developers can convert the current Net Plus systems into Net Metering systems to utilize the existing infrastructure. However, the cost associated with implementing rooftop solar is an important factor to be considered as solar rooftops are globally expensive than ground mounted space. | <ul style="list-style-type: none"> As per experts, the cabinet is proposing to pass a bill which would encourage commercial banks to lend at nominal interest rates and enable better cash flow for developers to have a positive attitude towards solar utility. Even though foreign funding has been limited, investment flow is expected to improve going forward. Under large-scale development projects, the customers are primarily export oriented companies who have the option to import their own material. | <ul style="list-style-type: none"> Availability of land is a prerequisite for success of solar projects. Recent budget proposals on land aim to resolve land issues which restrict growth of RE and sustainable energy sector. GOSL has issued various policies on RE with anticipated 70% power generation from RE by 2030. Improving production facility of solar panels, electric vehicles, and assembly of these vehicles are key focus areas. |

Renewable Energy – Biomass

| Financing Model | Ecosystem Development | Investor Activation | Policy Reform/Advocacy |
|---|--|---|---|
| <ul style="list-style-type: none"> Funding sources include Venture Capitalists (VCs), Private Equity (PEs), and Development Finance Institutions (DFI), who would have similar requirements for funding projects or investee companies, including assured logistics, inputs, and technical expertise, understanding trigger points of the behavioral factors, and understanding benchmark studies. Thought must also be put into engaging with Sri Lankans who have made a name for themselves abroad. Catalytic and philanthropic funding is also a viable alternative to supplement traditional banking facilities. | <ul style="list-style-type: none"> Biofuel production is considered under the purview of the integrational crops business model. Thus, biofuel/biomass cannot be considered as a standalone business function for any investor, but as an add-on cashflow as no business would be viable with 100% focus on biofuel. This implies that businesses can employ unutilized land of tea and rubber farm owners as well. New Climate Secretariat can remove inter-departmental blockages which hinder the process from the perspective of the government. | <ul style="list-style-type: none"> From the perspective of traditional funding in Sri Lanka, banks are often required to provide working capital for funding biofuel projects. As the bankers need to secure and reassure depositor money, they would readily fund small-scale projects, but funding large-scale projects in this sector is difficult without any confirmed financial returns. In addition, given the current economic climate and price fluctuations for basic supporting infrastructure for such businesses such as – transportation, feedstock for biomass manufacturing units, assumptions driving the business models are uncertain. | <ul style="list-style-type: none"> Some of the additional inputs required to scale up from the perspective of decision makers or/and policy advocates include: <ul style="list-style-type: none"> Data driven decision making for investors to identify profit potential, with specific emphasis on the supply side. Organizations promoting investment (BOI, UNDP) should be able to provide data-backed evidence to gain investor support. As per MDF, customers expect relevant state institutions and policy advocates to discuss the possibility of establishing a framework for certification which would serve as evidence of sustainable sourcing of biomass. |

Food & Beverages

| Financing Model | Ecosystem Development | Investor Activation | Policy Reform/Advocacy |
|--|--|--|---|
| <ul style="list-style-type: none"> Even though, investment climate for foreign investors is better in Sri Lanka than that in peer countries like Bangladesh, application of innovative financial instruments or funding structures needs improvement. | <ul style="list-style-type: none"> Implementation of good agricultural practices (scientific growing methods), technology and innovation, which determine the future of agriculture requires development. | <ul style="list-style-type: none"> Experts suggest that fundamental issues of land ownership must be resolved to improve the level of investment in cold chain or its digitalization. | <ul style="list-style-type: none"> The subject of agriculture in Sri Lanka is handled by innumerable state institutions including Ministries. This hampers the growth of agriculture as cohesiveness is lacking in this sector. Establishing one consolidated entity to handle agricultural interests– including |

| Financing Model | Ecosystem Development | Investor Activation | Policy Reform/Advocacy |
|--|---|---|---|
| <p>Development of this area can be done with minimum support infrastructure.</p> <ul style="list-style-type: none"> Innovative financing instruments such as impact-linked bonds, sustainable finance bonds, women livelihood bonds (listed in Singapore stock exchange through IIX), guarantee funding facilities and catalytic instruments can be used for start-ups and agri-led entities. <ul style="list-style-type: none"> For guarantee funds, a guarantee limited company can be set up which would place fixed deposits against Banks, which would partner with MFIs (Micro-Financing Institutions) or agri-institutions. Examples of loss guarantees are in place in several peer economies such as in Bangladesh and in other Asian contexts like Indonesia, reducing entry barriers for global investors. Data analytics that help understand risk thresholds is critical in this case. For start-ups that are looking for scalability, the size of the market is quite limited for a homegrown business to go the IPO way and thus, acquisitions by regional players are the way to go for achieving scale and growth. However, if platforms like iFarmer, that are looking to expand to Sri Lanka, can acquire the existing start-ups, both entities will benefit as iFarmer would gain access to Sri Lankan market, while start-ups would gain access to global markets. In Sri Lanka, development financial agents invest effort in extensive research, but obtaining funding is difficult. For example, first loss guarantees are very viable. Guarantee fund structure is quite simple. But the sustainability of these financial instruments is dependent on data analytics. Thus, funding should go towards innovation of efficient data systems. | <ul style="list-style-type: none"> Two types of agri-insurance are available in Sri Lanka, covering 60% of capital invested. However, these are not ideal for farmers as effective insurance schemes must be yield-based. For this purpose, data on vital parameters such as, price index, weather index or geographical yield are missing in Sri Lanka. Thus, the ecosystem needed for successful implementation of agri-insurance needs improvement. | <ul style="list-style-type: none"> The World Bank Group has tried to connect smallholder farmers to markets by supporting technology and value chain developments with the support of Ministry of Plantation and Ministry of Agriculture. Grants issued are in proportion to the size of investors or corporates. As per experts, Sri Lankan expats (diaspora) should also be considered as target audience or potential investors. An ideal foreign investor must bring in new markets for the Sri Lankan farmer, and not just funding. As farmers lack direct connections with the expat community, multilaterals like UNDP or Board of Investment, Sri Lanka have advantageous positions to facilitate such intermediation. For example, MDF has a platform to address the needs of markets in Australia and New Zealand and create markets for Sri Lankan products. | <ul style="list-style-type: none"> – including advocacy and investment – would help in resolving this issue. Currently, there is no standardized regulatory framework to address these issues. Policy advocacy needs to be addressed. A high-level steering committee must be set up, comprising 70% participation from the private sector and a minority participation of ~30% from public sector. Implementing procedures and action plans has become more difficult, as labour migration from rural farming communities has increased, resulting in lesser proportion of youth choosing to work in agriculture. |

Consumer Goods

| Financing Model | Ecosystem Development | Investor Activation | Policy Reform/Advocacy |
|--|---|--|--|
| <ul style="list-style-type: none"> • Commercial Banks promote sustainability in financing through various programs which have a special focus on SMEs, MSMEs and women banking. • To define the 'Green' concept, SMEs banks not only consider the profits but also the impact on environment and the society (triple bottom line concept - profit, people, and the planet). Capacity building for SMEs to monitor, report and track social impact and SDG linkages, while also linking the financing made available for them, would help them unlock more opportunities for SMEs. • Sri Lankan government now has the legal foundation needed to pursue green financing or any other type of innovative financing. <ul style="list-style-type: none"> – Central bank's roadmap for sustainable finance has been finalized and is ready for implementation. – Green taxonomy is a framework or tool that foreigners may use as well. – UNESCAP has been helping the government create a framework for green bonds while working with the government and other UN organizations. These are sovereign instruments, through which GOSL borrows money from the market and uses it for green or blue initiatives. | <ul style="list-style-type: none"> • As a result of the economic crisis in the country, the cost of funding has become very high. Therefore, Sri Lanka must devise strategies for bringing dollars into the country. It's also important to address the root cause of this issue, which is inadequate policy decisions and policy making. • Despite various surveys conducted in the country, there is still a gap in collecting meaningful data. This is an area where multilaterals, like UNDP, can assist as data facilitators in collecting data for the industry to use in obtaining various certifications or embarking on the sustainable production journey. • Additionally, there is a need to facilitate a conversation between industry and government on collecting relevant and consolidated data – to be used for KPIs, standards, sustainable financing loans and the like. This would help in making Sri Lanka a destination for textile industry and enhance the country's confidence in this industry by creating a common platform/standard. • To compete in the global market, quality and branding should be increased by a nationally recognized framework. | <ul style="list-style-type: none"> • BOI is focused on facilitation and has taken several steps to solve investors' problems. <ul style="list-style-type: none"> – All capital goods are permitted online - Obtaining permissions for selling goods online was a time-consuming process, but it is now possible to obtain approvals for capital items and raw materials without physically visiting the BOI premises. – Establishment of Investor Facilitation Centre (IFC) - IFC is chaired by the Honourable State Minister and aims to resolve all issues pertaining to enterprises. – Assistance from JAAF - there are several forex issues which BOI aims to resolve by holding discussions with Sri Lanka Customs and Import Control Department and CBSL. | <ul style="list-style-type: none"> • There is a need for a policy framework to define the term 'Green', which is currently, unclear. There is no indication or clarity for a small business to declare 'we are green' in the absence of such standards wherein impact measuring is unclear. |

| Financing Model | Ecosystem Development | Investor Activation | Policy Reform/Advocacy |
|--|--|---------------------|------------------------|
| <ul style="list-style-type: none"> As nothing prevents the government from allowing for this kind of funding, some of those earnings can be used to establish a separate fund for the private sector, making it more comfortable for the latter and encouraging it to invest in these sectors. Innovative financing instruments come with a very complicated set of compliance related projects. There are very clearly defined pipelines, KPIs, impact monitoring and measurement, risk management tools, as well as reporting. UNDP has started to support the government in these areas and will be holding a few capacity building sessions in the coming months. | <ul style="list-style-type: none"> There is also a need for a proper strategy to bridge the gap between high technology and low technology to bring innovation to SMEs. Apparel industry in Sri Lanka has many tiers within the local economy (Collectors, resellers, etc.). Most of these small-scale businesses have been practicing the model of upcycling. There is an opportunity, if this can relate to the craft industry, creative sectors, and SMEs- as there are many skills which can be utilized. There is a need for a common platform to assess the performance of a business to distinguish green businesses from others. One of the ways to do this would be to transition the source of apparel industry's power needs from renewable sources. Green energy solutions have the potential to support apparel sector in their manufacturing processes. However, under the current economic situation, the Electricity Board is unable to pay for the electricity generated by Net Plus investors, thereby deterring additional investment in the field of renewable energy. Furthermore, considering the link between level of electricity consumption by customers and the electricity generation from solar panels fixed on houses/premises, there is a need to switch from Net Plus to Net-Metering. Thus, zonal enterprises have requested BOI to grant investors duty-free access to goods related to renewable energy, which requires CEB's approval. | | |

Infrastructure

| Financing Model | Ecosystem Development | Investor Activation | Policy Reform/Advocacy |
|---|--|--|--|
| <ul style="list-style-type: none"> The issue of getting funding towards waste management is that largely investor appetite is not geared towards MSMEs – who are the primary players in this industry. It is considered too risky. Hence, the solution is to opt for a microfinancing structure. The possibility of stock to be recycled and used as collateral depends on case-by-case and bank-by-bank basis. Sometimes, the supply chain itself can be used as collateral. Banks in Sri Lanka are using cashflow based lending as collateral is the least preferred lending option due to its lack of feasibility. Thus, the prevailing funding issues in this industry stress on the importance of a blended finance fund | <ul style="list-style-type: none"> The process of waste management must be made more transparent and streamlined while increasing the collection of data and its usage while making business decisions because no international agency will help if there isn't sufficient data. A sustainable mechanism needs to be identified to collect waste without damaging the environment. Currently, actual waste collection is less than the estimated collection due to the presence of threatening elements in the waste collection system. Thus, improved data collection, waste mapping and waste audit are essential for building a strong waste management system. It is possible to increase efficiency via micro scale industrial expansion. This implies the need for a mechanism to channel specific waste to specific institutions. This refers to separation of different types of waste. Having a variety of waste categories will reduce cost. A special distinction to be made here is for combustible waste. Valuable plastic items get contaminated from plastic syringes. This reduces the amount to be recycled and causes health hazards. There must be an increase in community awareness to tackle this. | <ul style="list-style-type: none"> For bankers the main barriers in getting into the waste management space is: <ul style="list-style-type: none"> DFCC – collaborating with companies such as Eco Spindle that work with small scale waste collectors who lack access to banking facilities. DFCC is trying to get MSME support for such players. Incentivizing them to use their smartphones for banking purposes will also be helpful. COMB official – mentioned that there are no targeted projects/products for this purpose, but by lending products currently available, small recyclers can carry out their business operations. | <ul style="list-style-type: none"> In respect to the GOSL's policy momentum, cost of environment is now being factored in and is channeled to the recycler. For this, traceability is important to figure who is producing waste and who will set it off. A national target must be established for this. |

Healthcare

| Financing Model | Ecosystem Development | Investor Activation | Policy Reform/Advocacy |
|--|--|---|---|
| <ul style="list-style-type: none"> Investable and scalable models, including those based on concessionary financing, should be explored in the healthcare sector. Dedicated special economic zones to provide infrastructure and financing support to manufacturers. | <ul style="list-style-type: none"> Due to high regulations in the market, Sri Lanka must collect and maintain at least 2 years of data on the local market. In the absence of such data, there would be no level playing field against the import market. This also extends to lack of data to help price drugs to ensure product affordability. The current systems lack transparency directly impacting last mile populations who need access to essential medicines. Since healthcare sector is a highly regulated market, setting up zones can help propel opportunities. However, to protect the stakeholder value and drive further growth in the sector, existing issues need to be addressed. There is significant potential in healthcare worker training and capacity building including export of such skilled workers. However, the value chain is extremely fragmented and bureaucratic especially in areas such as module standardization, certification and accreditation, lack of coordination between State nursing schools and private sector driven initiatives. Consultations confirmed that due to lack of regulations and compliances, thousands of nursing schools have mushroomed across the country. | <ul style="list-style-type: none"> The Government buy-back agreements should continue and a guaranteed buy-back agreement with the Ministry of Health can be explored. <ul style="list-style-type: none"> A buy back agreement for 10 years will promote investment; this should also create competitive opportunities for private sector manufacturers besides only the State Pharmaceutical Manufacturer Corporations (SPMCs) Export rebates for at least 10-15 years are needed to maintain sustainability. Potential in exploring opportunities in the indigenous medicine space where SPMC monopoly is low and the export potential is high. The Ministry of Foreign Affairs can further support the coordination between various actors in the space. | <ul style="list-style-type: none"> MoH aims to formulate a robust and sound long-term policy framework, with the support of WHO, to minimize the investment risks in the healthcare sector, including buy-back agreement, among others. WHO and the Government of Sri Lanka (GOSL) are in talks to initiate the development of a roadmap for Sri Lanka to strengthen the Healthcare sector. The Ministry of Health (MoH) can take the lead to develop a 10-15 year policy in collaboration with WHO to reduce the risk for investors while operating in the healthcare industry. Policy direction for evidence based pricing is required by creating stronger data collection, reporting and transparency mandates to help drive availability, access and affordability of basic and essential medicines. Policy direction for streamlining skill development for the healthcare industry is of paramount importance both for domestic purposes as well as to drive export of these skills to foreign markets. |

Next steps

Going forward, building on the findings of the SDG Investor Map and Sector Deep Dives, UNDP wishes to collaborate with various partner organizations to build an Impact Ecosystem with the objective to support:

Investor activation

Activate private capital and initiate the first round of discussions between investors and corporates, knowledge exchange convenings can be organized in the form of sector deep-dives or accelerator programs with the objective to identify investment pipeline or fund and corporate level impact advisory.

Facilitate investment incubator programs to strengthen the start-up ecosystem in Sri Lanka

Capitalize on the network built across the APAC region by engaging with investors and corporates, especially the ones targeting to expand their operations or portfolios beyond their home countries.

Deploy enterprise/venture support programs that UNDP has been running in different countries such as Growth Stage Impact Venture programs and Impact Venture Accelerators that uniquely forge a strong impact-investment thesis for enterprises so they may enable fund flows into SDGs.

Forge partnerships for optimal outcomes for enterprises and investors in Sri Lanka.

Strengthening policy ecosystem

Engage with intermediaries and government bodies to initiate policy initiative and reforms towards identified white spaces.

Collaborate with Board of Investment (BOI) and SD Council to initiate Investment Convenings/Matchmaking and Impact Reporting trainings.

Aim to support BOI in enhancing the capacity and strengthening the systems of the BOI through our Governance work.

Building impact management and measurement capabilities

Create publicly available educational assets on impact management and measurement that can help businesses integrate sustainability into their business practices and outcomes.



Annex I: Sector Wise Summaries from the Deep Dive Sessions

Renewable Energy – Grid connected solar and wind power

Moderators: Kamal Dorabawila (IFC), Ritika Mehrotra (UNDP)

Participants: Mr. Gamunu Abeysiri, Commercial Bank; Chanaka Wickramasuriya, USAID Sri Lanka, Aravind Ganesan, Market Development Facility (MDF), Lakmal Fernando, Regan Renewables, Manjula De Silva, Ceylon Chamber of Commerce, Imesha Dissanayake, Ceylon Chamber of Commerce, Suranga Karavita, UNDP, Raashid Riza, UNDP, Vagisha Gunasekera, UNDP, Kosala Gunawardena, USAID, Pramodi Attygalle, UNDP

Challenges and Mitigating factors:

1. CEB has so far brought up 390 MW of solar tenders, but only 130 MW are operational or under construction since 2016. There is a need to explore economically viable ways for people to move towards rooftop solar.
2. Power wheeling can offer a solution for energy transmission to last mile consumers. However, this process is time-consuming and requires multitudes of individuals to join this bandwidth.
3. As per experts, Sri Lanka lacks the capacity, funds, and technical know-how necessary to build up a panel manufacturing plant which can operate for 30 years. The country possesses basic raw materials for manufacturing panels, majority of which are exported. Currently, the daily output of an average sized solar panel manufacturing company is sufficient to meet Sri Lanka's requirements for panels during the next seven years. Furthermore, Adani and a few other companies have begun producing panels but have no desire to sell as they produce for themselves. Even though, the requirement for the country to set up plants for producing solar modules or inverters is currently low, this market may expand if China considers using Sri Lanka to resolve its differences with the US.
4. Primary reasons why Sri Lanka is facing difficulty in attracting large scale solar development investments is: inadequacy of documents, lack of transparency and arduous laws. Government intervention in the form of establishing a policy framework and simplification of laws can help in addressing such issues.
5. Given how poorly the energy sector performs, investing in it no longer seems like a lucrative business. Additionally, prevailing tariff issues make it difficult to attract investors to this sector, including impact investors who have the appetite to see beyond commercial viability of projects.
6. Existing players in the solar industry also face issues in borrowing funds at exorbitant rates from commercial banks.
7. Solar rooftop developers need to take appropriate steps to lower their costs by employing locally available raw materials and value additions. Companies advertise that they produce solar panels despite lacking the necessary technology to deliver a reasonably acceptable product. Even while financing a project of this nature, bankers search for high-quality products because they want to ensure that the product will last at least 10 years until the debt is recovered. Because of this, Sri Lankan enterprises always rely on Tier 1 grade panels with international warranties; whether the producer is there or not, the product is covered by the warranty.
8. Availability of land is a prerequisite for success of solar projects. Sri Lanka has 4 types of Land Reform Commissions (LRCs), Government Agents, Mahaweli, and Estates sector. However, developers require transparency and readily available data on land and spaces (schools, hospitals).
9. Recent budget proposals on land are as follows:
 - Point 12 on 'Lands for Agricultural Exports' states that, "A vast amount of land belonging to Janatha Estate Development Board (IEDB), Sri Lanka State Plantation Corporation (SPC), and Land Reform Commission (LRC) remains without being cultivated or productively utilized for a long time, due to

various reasons: legal issues, institutional conflicts, lack of capital and the like. There are possibilities of productively using such lands for the betterment of the economy. Accordingly, a programme will be devised to allow investors to productively utilize them in a manner to increase both the production and exports. Hence, it is expected that large parcels of unutilized/unproductively used lands will be leased out on long-term basis to grow exportable crops. Further, a new law to facilitate the proposed agricultural land lease program will also be presented to this house".

- Point 13 on 'Disposal of Government Lands' states that, "Although preliminary activities related to the disposal of government lands are carried out by District Secretaries/ Government Agents through Divisional Secretaries/Additional Government Agents, such duties were also allocated to Sri Lanka Mahaweli Authority and Land Reform Commission which were established for special requirements at a later stage. It is reported that there are occurrences of discrimination and malpractice as preliminary activities related to disposal of lands are done in various ways by the respective entities. Therefore, as the aforementioned special requirements have already been met, a programme will be prepared during the next year to enable preliminary activities in relation to disposal of all government lands including the disposal of lands under the above two institutes only by the Divisional Secretaries".
10. Due to unions and their conflicting interests in energy and power generation sector, political economic issues have been escalating, thereby discouraging investors from entering this space.

Opportunities:

1. Benefits of using RE include reduced costs of fossil fuels for countries, reversal of climate change and reduced air pollution. RE can also help in creating a resilient system, less vulnerable to market shocks.
2. In addition to the Budget highlighting specific proposals which can contribute to promotion of RE and sustainable energy, GOSL has issued various policies on RE with anticipated 70% power generation from RE by 2030. Improving production facility of solar panels, electric vehicles, and assembly of these vehicles are key focus areas.
3. Ceylon Electricity Board (CEB) has agreed to connect 2,600 megawatts of renewable energy without any large expansions. Additionally, we have identified 4600 megawatts of renewable energy to be reconnected by 2030 to reach Sri Lanka's 70% electricity, decarbonizing target. Therefore, it is imperative to identify the type of solar energy which can be developed without adding much pressure on grid expansion.
4. As per some corporates representing corporates which offer commercial scale rooftop solar solutions, more emphasis must be given to solar rooftops as that is the easiest and the fastest way of expanding RE without requiring foreign funding, as well as giving a boost to the economy. Additional intervention from the government will help in achieving solar rooftop expansion targets. Furthermore, developers can convert the current Net Plus systems into Net Metering systems to utilize the existing infrastructure. However, the cost associated with implementing rooftop solar is an important factor to be considered as solar rooftops are globally expensive than ground mounted space.
5. Usage of green hydrogen and various tradable assets may not be the best solution due to negative impacts of green hydrogen which are not emphasized upon. Solar based solutions can serve as a better alternative.
6. South Asia Grid: Sri Lanka-India HVDC Interconnection is a bilateral agreement. However, making it a multilateral agreement to enable free trade energy would be a good opportunity. According to the current proposal, a minimum of 20GW of renewable energy should be installed in Sri Lanka by foreign investors mainly to avoid the HVDC line. The initial proposal called for a 500 MVA HVDC line. Currently, 7 countries have gained connection to the South Asia Power Grid. However, for us to freely trade energy, the bilateral agreement must be implemented as a multilateral agreement. For example, if Bhutan has a surplus of hydropower energy, Sri Lanka should have the privilege to trade with Bhutan under wheeling terms (which is not accessible under the current agreement).

Future of Investment:

1. Stabilized energy sector is one of the prerequisites for economic development.
2. To achieve self-sustainability through renewable energy by 2050, we need a more accelerated and aggressive implementation process. Suggested solutions, such as commercial industrial solar, ground-mounted solar and floating solar spaces are not the fastest (can take up to 2-3 years to set-up) and most cost-effective way of rolling out solar project initiatives.
3. Policy interventions offering concessional financing for consumers to install solar rooftop or electricity cost rebates in case of transferring back electricity to the grid may encourage buyer-side momentum in this space.
4. As per experts, the cabinet is proposing to pass a bill which would encourage commercial banks to lend at nominal interest rates and enable better cash flow for developers to have a positive attitude towards solar utility.
5. Even though foreign funding has been limited, investment flow is expected to improve going forward. Under large-scale development projects, the customers are primarily export oriented companies who have the option to import their own material.
6. Sri Lanka is at par with international standards in energy pricing. Even though, prevailing currency devaluation resulted in higher prices, these issues are likely to be resolved in the near future, normalizing the prices. However, numbers may not be ideal for Bankers to invest in. If Sri Lanka can tap into foreign currency financing, competitive tariffs will be viable. As Rupee tariffs cannot be sufficient alone, procuring dollar funding should be given more emphasis. Opportunities with new methodologies of concessional financing, sustainable tariff methodologies and other kinds of more competitive structures should be explored to attract more investors.

Renewable Energy – Biomass

Moderators: Dulani Sirisena, Devahuti Choudhury (UNDP)

Participants: Rajendra Theagarajah, Ceylon Chamber of Commerce Rumala Gunaratne, Commercial Bank; Deshan Wickremasinghe, Market Development Facility (MDF), Dr. Thusitha Sugathapala, University of Moratuwa and the Ceylon Chamber of Commerce, Mahelee Hewawasam, Ceylon Chamber of Commerce, Jayani Jeerasinghe, UNDP

Challenges and Mitigating factors:

1. Total number of potential domestic users for biofuel is estimated to be ~260,000 pupil out of the country's total population of 22 million, thus raising a question whether the true market for biofuel has been captured. Determining how these 260,000 users are spread across the nine provinces of the country is crucial as it affects the positioning and scaling of the supply chain.
 - The number of potential users was forecasted for ~5 years while factoring in the current demand and supply. Since the current number of depots/terminals is insufficient (amount to ~6), the number of potential users is low.
2. The expected IRRs may differ than the projected numbers due to the prevailing local cost of funds.
3. Pellets, briquettes, and chips are the most commercialized technologies available, but they are available at a small scale, highlighting one of the main challenges in this industry, i.e., the availability of raw materials.
4. Biofuel production is considered under the purview of integrational crops business model. Thus, biofuel/biomass cannot be considered as a standalone business function for any investor, but as an add-

on cashflow as no business would be viable with 100% focus on biofuel. This implies that businesses can employ unutilized land of tea and rubber farm owners as well.

5. Technology is also a big issue especially for Micro, Small and Medium Enterprises (MSMEs). Processing of raw material requires frequent cleaning of facilities, which is an expensive process, both in terms of effort and money.
 - Linking universities and research institutions at a regional level can help resolve such technology issues.
6. Policies and regulations focused on land rights, technology and tariffs are missing.
 - Most land is owned by the Government and remains idle
 - Extraction of biomass from natural forest areas for commercial purposes is not permitted
 - Tech needs to be used to mitigate pollution, while the regulation needs to be more attuned to the local context
 - Tariff methodology needs to factor in the current crisis

Opportunities:

1. Various issues prevent bringing together all parts of the biomass value chain, and scaling it up, thereafter. For this purpose:
 - Policymakers and decision-makers need to identify what to grow, when to grow and where to grow, with respect to inputs, specifically while evaluating alternative cash crops and revenue sharing models. This evaluation should be combined with an analysis of disparities among provinces with respect to demand and supply, as demand and supply of biofuel/biomass is unlikely to be uniform around the country. Thus, as per experts, it would be viable to start biomass/biofuel business initiatives from one province and allow them to organically scale-up, instead of attempting to operate at pan-country level.
 - Additionally, it is imperative to explore the rationale behind the locations of the 6 terminals and determine whether these picks are in line with the demand and supply distribution.
 - Lastly, we must identify ways of connecting farmers to the main value chain, as there is a possibility of competition posed by big players in the market, who would be looking at biomass for generating electricity. In the absence of such an initiative, this will crowd out smallholder farmers, thereby diluting the intended impact.
 - Strengthening of infrastructure and availability of incentive is required for alternative cash crops as processing of biofuel takes time. For smallholder farmers, financial incentives (for example, putting aside a share of revenue for a scholarship program for the farmers' children) are especially important for gaining their loyalty.
 - There are 60 satellite centres for collecting biofuel where the smallholder farmers can contribute in case of strong competition.
2. It would be viable to understand the milk production model and co-operative model for this sector.

Future of Investment:

1. From the perspective of traditional funding in Sri Lanka, banks are often required to provide working capital for funding biofuel projects. However, majority of them failed due to the following reasons:
 - incapability of locking-in equity after the initial working capital was fully utilized
 - huge demand driven from electricity crisis which caused farmers to raise prices for biomass raw materials. Such high costs were the prime cause of failure for these powerplants.

- transportation issues arising from sources of raw materials also drove the costs to unmanageable levels. This was because the necessary raw materials had to be transported from other provinces.

As the bankers need to secure and reassure depositor money, they would readily fund small-scale projects, but funding large-scale projects in this sector is difficult without any confirmed financial returns.

2. Other funding sources include Venture Capitalists (VCs), Private Equity (PEs), and Development Finance Institutions (DFI), who have similar requirements for funding projects, including reassured logistics, inputs, and technical expertise, understanding trigger points of the behavioural factors, and understanding benchmark studies. In this context, it is important to evaluate whether it is possible to:
 - bring in USD 2 million diaspora to invest in a sustainability fund
 - take the concept of private sector engagement for this purpose
 - engage with family offices of big companies and unlisted businesses who have done well with global partners

Thought must also be put into engaging with Sri Lankans who have made a name for themselves abroad. Catalytic and philanthropic funding is also a good alternative for traditional banking facilities.

3. New Climate Secretariat can remove inter-departmental blockages which hinder the process from the perspective of the government.
4. Conversations around biomass and biofuel projects should be taken-up at the boardroom level for better implementation.
5. Even though there is fragmented activity in this market, behavioural tendencies need to be factored in.
6. Some of the additional inputs required to scale up from the perspective of decision makers or/and policy advocates include:
 - Data driven decision making for investors to identify profit potentials, with specific emphasis on the supply side. Organizations promoting investment (BOI, UNDP) should be able to provide data-backed evidence to gain investor support.
 - As per MDF, customers expect relevant state institutions and policy advocates to discuss the possibility of establishing a framework for certification which would serve as evidence of sustainable sourcing of biomass.

Food & Beverages

Moderators: Rizvi Zaheed (Sri Lanka Agripreneurs Association), Ritika Mehrotra (UNDP)

Participants: Aravind Ganesan, Market Development Facility (MDF); Malik Sherifdeen, Markey Development Facility (MDF); Prasanjith Wijayatilake, BOI; Jonathan Abeywickrema, IIX; Krishna Chathuranga, Talawakelle Tea Estates PLC; Sudath Jayasundara, BOI; Athula Senaratne, World Bank; Dr. Selvanathan Anojan, Sri Lanka Agripreneur Forum; Ruwin Mapa, Sri Lanka Agripreneur Forum; Jayani Rathnayake, Ceylon Chamber of Commerce; Imesha Dissanayake, Ceylon Chamber of Commerce

Challenges and Mitigating factors:

1. In 2021, agriculture contributed 7.3% of Sri Lanka's GDP. Due to the economic crisis, malnutrition is a rising threat, with ~17% of children carrying the disease of wasting, making the F&B industry even more relevant for investment in the current scenario.
2. Challenges faced by the F&B sector include:
 - Reduction in post-harvest losses, improvement in farmers' productivity, and transition of small holders to more formal value chains are required.

- Ban on imports (for products such as agrochemicals and the like) have compounded the hardships faced by players in agri-sector.
- Supply and distribution chains have been affected by fuel rationing and the pandemic.
- The subject of agriculture in Sri Lanka is handled by innumerable state institutions including Ministries. This hampers the growth of agriculture as cohesiveness is lacking in this sector. Establishing one consolidated entity to handle agricultural interests – including advocacy and investment – would help in resolving this issue. Currently, there is no standardised regulatory framework to address these issues.
- Access to finance and markets is an issue for farmers. Looking from an investors' perspective, a farmer needs to have an assured marketplace.
- Also, good agricultural practices (scientific growing methods), require technology and innovation which would determine the future of agriculture requires development. While working with smallholder farmers, it is difficult to adhere to and implement technology, especially under the current situation.
- Policy issues in the sector need to be addressed. A high-level steering committee must be set up, comprising 70% participation from the private sector and a minority participation of ~30% from public sector. Inconsistency in policy framework is a major problem.
- Implementing procedures and action plans has become more difficult, as labour migration from rural farming communities has increased, resulting in lesser proportion of youth choosing to work in agriculture.
- Agri-insurance:
 - Two types of agri-insurances are available in Sri Lanka, covering 60% of capital invested. However, these are not ideal for farmers as effective insurance schemes must be yield-based. For this purpose, vital parameters such as, price index, weather index or geographical yield are missing in Sri Lanka. Thus, the ecosystem needed for successful implementation of agri-insurance needs improvement.

Opportunities:

1. Development of F&B sector is imperative for addressing issues such as malnutrition, food security and export revenue.
2. Cold chain storage for agriproducts and perishable food items is vital as it affects regularity of farmers' income as well as food security. Sri Lanka aims to reduce its reliance on import of food (bulk of onions and potatoes). Development of cold chain storage would also help in minimizing risk of post-harvest losses.

Future of Investment:

1. Prior to designing solutions, we must define the target audience to make sure that we are addressing the problems of the targeted community or sector. For example, for the private sector, issues may be related to profitability; for the farming community, issues may be related to adoption of export-oriented crops for farming practices; and for small holders, issues may be related to identifying ways of entering global supply chains.
2. Investors would require commercially viable terms of investment, including short payback periods for their target returns and profitable potential investor exits.
3. There is a need for policy advocacy to expedite the decision-making process in the F&B / agriculture sector under a rational policy framework.

4. Experts suggest that fundamental issues of land ownership must be resolved to improve the level of investment in cold chain or its digitalization.
5. The World Bank Group has tried to connect smallholder farmers to markets by supporting technology and value chain developments with the support of Ministry of Plantation and Ministry of Agriculture. Grants issued are in proportion to the size of investors or corporates, i.e., higher grants for large investors/companies and lower grants for small investors and companies. Others (medium sized companies) have been issued grants in clusters. Seeds, insecticides, and other raw materials were provided to clusters of 150-300 farmers. As per a group of academics, public unlisted companies would be good for such a business model. If at least 15-20 companies of the 50 companies can succeed by adding value, the business model would be considered successful.
6. Even though, investment climate for foreign investors is better in Sri Lanka than that in Bangladesh, application of innovative financial instruments or funding structures needs improvement. Development of this area can be done with minimum support infrastructure.
7. In Sri Lanka, development financial agents invest effort in extensive research, but obtaining funding is difficult. For example, first loss guarantees are very viable. Guarantee fund structure is quite simple. But the sustainability of these financial instruments is dependent on data analytics. So, funding should go to innovation as well.
8. As per experts, Sri Lankan expats (diaspora) should also be considered as target audience or potential investors. An ideal foreign investor must bring in new markets for the Sri Lankan farmer, and not just funding. As farmers lack direct connections with the expat community, multilaterals like UNDP or Board of Investment, Sri Lanka have advantageous positions to facilitate such initiation. MDF has a platform to address the needs of markets in Australia and New Zealand and create markets for Sri Lankan products.
9. Additionally, current capital providers (banks) do not lend to farmers on cashflow-based funding. This can be resolved using data-analytics, which is used by many global platforms to lend to farmers. For instance, in Indonesia, Jala Tech and eFishery monitor the health of shrimp ponds to understand how long the shrimp takes to mature. Using this data, they partner with local banks in Indonesia to lend to farmers. Banking sector in Sri Lanka can contribute by joining hands with corporates like Hayleys to obtain similar data analytics. Such data can then be used to extrapolate and identify revenue-based financing opportunities.
10. There are various global platforms which can be replicated for the Sri Lankan market. In Bangladesh, there is a platform called iFarmer which aids agricultural financing and links farmer-sponsors and farmers. Despite this, Bangladesh farmers face more grassroot-level problems, such as lack of sufficient collection centres and adequate goods' transportation system. Sri Lanka faced similar issues during the pandemic. However, despite these persisting issues resulting in an inadequate supply chain between farmers and consumers, investment flow in this space has been limited. Indonesia has various B2C platforms which cannot be replicated in Sri Lanka due to issues related to brand names. However, some platforms like Keells can be used for this purpose.
11. Currently, Sri Lanka has no foreign capital flow coming in towards innovation. Infact, there are insufficient innovation initiatives at the University-level (youth level). Universities should be encouraged to partner with corporates to build innovation labs.
12. Innovative financing instruments such as impact-linked bonds, sustainable finance bonds, women livelihood bonds (listed in Singapore stock exchange), guarantee funding facilities and catalytic instruments can be used for start-ups and agri-led entities.
 - For guarantee funds, a guarantee limited company can be set up which would place fixed deposits against Banks, which would partner with MFIs (Micro-Financing Institutions) or agri-institutions. Countries like Indonesia and Bangladesh are put in the first loss guarantee such that global investors can enter the market. Data analytics is critical in this case.
13. For start-ups that are looking for scalability, the size of the market is quite limited for a homegrown business to go the IPO way and thus, acquisitions by regional players are the way to go for achieving scale and growth. However, if platforms like iFarmer, that are looking to expand to Sri Lanka, can acquire

the existing start-ups, both entities will benefit as iFarmer would gain access to Sri Lankan market, while start-ups would gain access to global markets.

14. A lot of market information and agri-research is carried out, but the same is not accessible for farmers. Initiatives like UNDP's SDG Investor Map can be used as a channel to make this data available to farmers.
15. Finally, a strong level of trust and connection between stakeholders (investors, farmers, local sponsors) is imperative for a successful investment decision.

Consumer Goods

Moderators: Yohan Lawrence (JAAF), Vagisha Gunasekera (UNDP)

Participants: Amanthi Perera, MAS Holdings Sri Lanka; Natasha Silva, TWC; Charmalee Jayasinghe, DP Secretariat; Gayan Fernando, Hayleys Advantis; Janaka Wijayasiri, USAID Sri Lanka; Lonali Rodrigo, House of Lonali; Mumtaz Aroos Faleel, WUSC; Nino Antadze, UNDP; Chalani Panditha, Star Garments (Pvt) Ltd; Vinura Jayawardena, Brandix; Kavinda Ratnapala, JAAF; Ganga Palekatiya, BOI; Ranjith Dharmasiri, BOI; G.R.C Gamlath, BOI; Senaka Jayasinghe, Pan Asia Bank; W.G. Dananja Buddhika Watuhena, Isabella (Pvt) Ltd; Asela Perera, Cargills Bank; Myanathi Perera, UNDP; Prasad Batuwantudawa, International trimmings and labels lanka (PVT) Ltd; Trent Hemachandra, Ceylon Chamber of Commerce; H.G.S. Dulanjana, LIIN;

Challenges and Mitigating factors:

1. The apparel industry is at the forefront, but it lacks the ability to define itself in a language that others can understand. For example, how you define a family in Sri Lanka Vs. how you define a family in another country in the region, what is real wage or what is the basket of goods.
2. For a buyer to understand what a country's real wage is, or to understand the gap between living nature and the nature of the economy, the government must take initiatives to provide buyers with real-time data. So that bridging organizations can take it forward.
3. As a result of the economic crisis in the country, the cost of funding has become very high. Therefore, Sri Lanka must devise strategies for bringing dollars into the country. It's also important to address the root cause of this issue, which is inadequate policy decisions and policy making.
4. Even though, there is currently a household income and expenditure survey, a labour force participation survey, an agricultural census, and an industrial census, there is still a gap in collecting meaningful data.
 - This is an area where multilaterals, like UNDP, can assist as a data facilitator in collecting data for the industry to use in obtaining various certifications or embarking on the sustainable production journey.
5. Additionally, there is a need to facilitate a conversation between industry and government on collecting relevant and consolidated data – to be used for KPIs, standards, sustainable financing loans and the like. This would help in making Sri Lanka a destination for textile industry and enhance the country's confidence in this industry by creating a common platform/standard.
6. The definition of 'Green' is not clear. Thus, there is no indication or clarity for a small business to declare 'we are green' in the absence of such standards wherein impact measuring is unclear.
7. To compete in the global market, quality and branding should be increased by a nationally recognized framework.
8. There is also a need for a proper strategy to bridge the gap between high technology and low technology to bring innovation to SMEs.

Opportunities:

1. Almost 46% of Sri Lanka's total export earnings in 2022 originated from the apparel sector. It generates the second-highest amount of foreign exchange, with 400,000 direct employees and 2 million indirect job opportunities, which significantly contribute to the country's employment rate.
2. Fabric cost accounts for a significant portion of the annual expenditure on raw materials, amounting to USD 5.50 billion, needed for garment manufacturing. More than USD 2 billion worth of fabrics are imported into Sri Lanka, covering both local components as well as fabrics to produce imported garments. The number of imports into the apparel industry is between USD 1 billion to USD 1.2 billion, primarily out of China and India. The remaining fabric requirement is purchased from the local mills in Sri Lanka.
3. Garment manufacturing has remained robust despite the challenges that the sector has endured throughout the course of its long existence. Last year, the first eight months, until August 2022, the industry recorded the strongest ever export earnings.
4. When it comes to positioning Sri Lanka's apparel industry internationally, the ethical manufacturing practices, sustainable development, assuring industry commitment to ethical working conditions, free of child labour, free of forced labour, free of discrimination, and free of thrift shop practices, clearly differentiate Sri Lanka from other countries in the run, like Bangladesh.
5. The industry's support for employment generation and harnessing the talent of the country's rural areas by establishing factories all throughout Sri Lanka under the concept of "Rural Empowerment" has had a huge positive impact on the economy and impressed the global apparel chains which have acknowledged and recognized this contribution.
6. Considering current level of development in the global context and Sri Lanka's current position on the world map, the industry business community needs to concentrate more and work harder on expanding the industry to the next highest level possible. To achieve this, carving out a niche space for Sri Lanka's products and possibly leveraging the increasing interest in sustainable projects should also be explored. UNDP has identified an investment opportunity, new development potential, and policy momentum in this area through the SDG Investor Map.
7. However, determining to establish factories to manufacture fabric within the country, should be considered as a potential investment area.
 - Ex: BOI constructing a factory park in Eravur
8. Apparel industry in Sri Lanka has many tiers within the local economy (Collectors, resellers, etc.). Most of these small-scale businesses have been practicing the model of upcycling. There is an opportunity, if this can relate to the craft industry, creative sectors, and SMEs- as there are many skills which can be utilized.
 - Women Go Beyond programme aims to empower women by focusing on reproductive health and rights, skill development, combating gender-based violence and promoting career advancement. This would enable skilled staff to start their own business.
 - Batik industry and water refining can also be considered, which will also lead to SDG 12, responsible consumption, and production.
9. Commercial Banks promote sustainability in financing through various programs which have a special focus on SMEs, MSMEs and women banking. To define the 'Green' concept, SMEs banks not only consider the profits but also the impact on environment and the society (triple bottom line concept- profit, people, and the planet). Capacity building for SMEs to monitor, report and track social impact and SDG linkages, while also linking the financing made available for them, would help them unlock more opportunities for SMEs. There is a need for a common platform to assess the performance of a business (for example, for energy it's The Science Based Targets initiative or SBTi) to distinguish green businesses from others.
10. Balancing impact thesis with business objectives:

- Brandix developed their ESG strategy, which has evolved into a model based on the GRI framework. This is a critical element for Brandix, along with its environment, social, and governance responsibilities. Although, there are many accreditations particular to the garment sector such as the Higg index, where SDGs are encompassed in the framework, the company prioritizes material issues that are significant to them. By addressing the SDGs and Brandix's sustainability pillars, which are air, water and earth, the company has prioritized SDGs such as water and sanitation, renewable energy, climate change and waste disposal.
- According to MAS's perspective, prioritizing certain SDGs has a lot to do with materiality. Aligning SDGs with the company strategy is important. Because as a large corporation, it may not be able to work on all 17 SDGs but on a few selected ones. For example, MAS's strategy to inspire sustainable change within the business concentrates on certain SDGs which are based on 3 pillars, i.e., products changed for good, lives changed for good, planet changed for good. MAS's target is to generate 50% of their revenue from sustainable products by 2025. In that context, aligning the SDGs with the company strategy has been very important. At the same time, as SDGs are written in a language of national achievement, MAS is concerned with how they contribute to the country in achieving these goals.

11. Role of BOI:

- There are roughly 260 acres in the Eravur fabric zone, and Jay Jay Mills Textile Lanka Pvt. Ltd. has already signed an agreement with the BOI. Moreover, MAS, ATJ, and Ocean Lanka have verbally agreed to invest in the future with a commitment of USD 100 million each.
- This is also a good opportunity for potential investors in Sri Lanka as this will be expanded to 400 acres in future.
- Recently BOI took several steps to solve investors' problems. In contrast to Sri Lankan customers (enforcement powers), the BOI appears to be looking out for facilitation.
 - All capital goods are permitted online – Obtaining permissions for selling goods online was a time-consuming process, but it is now possible to obtain approvals for capital items and raw materials without physically visiting the BOI premises.
 - Establishment of Investor Facilitation Centre (IFC) – IFC is chaired by the Honourable State Minister and aims to resolve all issues pertaining to enterprises.
 - Assistance from JAAF – there are several forex issues which BOI aims to resolve by holding discussions with Sri Lanka Customs and Import Control Department and CBSL.
- Sri Lankan government now has the legal foundation needed to pursue green financing or any other type of innovative financing.
 - Central bank's roadmap for sustainable finance has been finalized and is ready for implementation.
 - Green taxonomy is a framework or tool that foreigners may use as well.
 - UNESCAP has been helping the government create a framework for green bonds while working with the government and other UN organizations. These are sovereign instruments, through which Gborrows money from the market and uses it for green or blue initiatives.
- As nothing prevents the government from allowing for this kind of funding, some of those earnings can be used to establish a separate fund for the private sector, making it more comfortable for the latter and encouraging it to invest in these sectors.
 - Innovative financing instruments come with a very complicated set of compliance related projects. There are very clearly defined pipelines, KPIs, impact monitoring and measurement, risk management tools, as well as reporting. UNDP has started to support the government in these areas and will be holding a few capacity building sessions in the coming months.

12. MAS is an active investor in Net Plus. Currently, since CEB is not paying, there is no cash coming in, thereby limiting fresh investments in renewable energy sector. To preserve some cash for apparel manufacturing, Net Plus should be converted to Net-Metering.
13. There have been several requests to BOI from zonal enterprises.
 - A contract between the BOI and the enterprise can be signed and supplemented after receiving CEB clearance. Additionally, BOI can provide duty-free access to investors in BOI enterprises.
 - Some of the things can be imported duty-free, but things like inverters are duty paid.

Future of Investment:

1. With the current economic environment, despite the willingness from both, manufacturers and investors, the challenge is lack of dollar funding.
 - Affordable financing - GCF accreditation can be considered. Blended financing structures should be made available to large corporations, which can afford to pay back dollar debt.
For example, while obtaining a loan at ~2-5% concessional financing rate, a bank would normally finance the risk of currency depreciation while lending for rupee businesses. However, if companies like Brandix and MAS can afford to invest in dollars, increased dollar funding can ultimately contribute to rebuilding dollar reserves.
2. When it comes to low-cost funding, there are low-cost schemes and donor agencies. Small and Medium Sized Businesses - Line of Credit, or SMELOC is one of the SME programs now provided in Sri Lanka, which offer SMEs with loans at lower rates of interest. Although, funds for lending are available, but limited. Hence, the government would need to take the lead in attracting low cost- sustainable development projects in Sri Lanka.
3. Green financing opportunities:
 - The country rate will invariably be a restriction for green bonds. However, development organizations like DFCs can support by offering credit guarantees. For instance, if a business-like MAS declares it wants to list a green corporate debt instrument, it will be constrained not just by MAS's credit rating but also by the country rating.
 - The other restrictions, however, clearly apply to nations like Sri Lanka, where MAS, as the largest corporation, still needs to make at least USD 100–200 million annually. As a result, setting up a syndicate with necessary facilitation can also be considered.
 - According to the London Stock Exchange and the like – as many investment funds have a minimum investment amount, there is a great appetite.
 - The Green Climate Fund - DFCC is currently working to obtain accreditation. Potential programs and funding may be available that could be accessed by submitting concept notes.

Infrastructure

Moderator: Damith Samarakoon, SLYCAN; Facilitated by: Dulani Sirisena, UNDP;

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Challenges and Mitigating factors:

1. Glass, metal, and hard plastic is the most profitable to recycle. However, there is no mechanism in Sri Lanka to collect organic waste material.
2. Examples from the industry:
 - Material Recovery Facility (MRF) is a successful mechanism in Sri Lanka. Coca Cola has identified 5 MRFs, out of which 3 are functioning. Coca-Cola (along with Eco Spindle Pvt Ltd) uses these facilities and intends to use all recyclable materials by 2030, including packaging material. The challenges identified by Coca Cola in using MRFs is that although these are equipped to use any type of waste material, the company is using only PET bottles. So operating MRFs, consisting a baling and a crusher machine, is not profitable for the company as such a facility costs over LKR 3 million or USD 9,303. Due to this, Coca Cola is now collecting all types of recyclable material. During the first 2-3 months, around 5 MT of waste were collected, but now the monthly collecting capacity has increased to 18-23 MT, and while collecting has gotten better overtime, there is still excess capacity. In terms of ratios, approximately 25% of Coca Cola's production is collected via these MRFs.
 - Modern Pack Lanka Pvt Ltd collects only yoghurt cups, but the challenge is that the collection amounts to a very small volume. More than 100 cups must be collected to accumulate 1kg of plastic. As of now, with the help of Urban Council and garbage collectors, Modern Pack collects 1-2MT per month. However, even they are looking to widen the variety of plastic waste to collect.

To make this process more viable, Ceylon Chamber of Commerce (CCC) is pushing for an Extended Producer Responsibility Programme and CCC has identified financing as a main area of the waste management industry to support.

3. Collaborating with current recyclers has shown that they do not have sufficient financial access.
4. Serendib Assets partner with movements, like Verra, to give plastic credits. But such international movements require data. Serendib Assets have offered to partner with banks and other institutions provided they help with digitalization and collating of data.
5. Most of the domestic recyclers use cash for business purposes. However, this causes transparency issues in an international arena. Thus, encouraging them to open bank accounts (financial education) and transact online would help.
6. The process of waste management must be made more transparent and streamlined while increasing the collection of data and its usage while making business decisions because no international agency will help if there isn't sufficient data. Serendib Assets plans to collaborate with plastic recyclers and the R&D team of Tata Group to come up with a strategy to save wild elephants as most landfills where plastic is dumped are visited by elephants for food.

A sustainable mechanism needs to be identified to collect waste without damaging the environment. Actual waste collection is less than the estimated collection due to the presence of threatening elements in the waste collection system. Thus, improved data collection, waste mapping and waste audit are essential for building a strong waste management system.

7. The reason why most domestic recyclers are cash-based is because they sell quickly to whoever offers to buy, as a lot of small recyclers lack adequate capacity to hold waste storage.
8. For bankers the main barriers in getting into the waste management space is:
 - DFCC – working with companies such as Eco Spindle that work with small scale waste collectors who lack access to banking facilities. DFCC is trying to get MSME support for such players. Incentivizing them to use their smartphones for banking purposes will also be helpful.
 - COMB official – mentioned that there are no targeted projects/products for this purpose, but by lending products currently available, small recyclers can carry out their business operations.
9. Infrastructure for waste management provided by the local governments is assumed to be underutilized and the reason for the same must be ascertained.

10. There are market failures and policy gaps in this industry. In Sri Lanka, any venture that has more than one line ministry involved is doomed to failure. Therefore, it is imperative to build an ecosystem and value chain, and to find out where the market failures exist. Also, if there are market failures, where more than one line ministry is involved, the exact space where the market failure is occurring should be identified.
11. The discussion towards financing biogas operations began due to payment defaults by CEB (Ceylon Electricity Board) which led to insufficient funds. Unless CEB pays, businesses in this area would not be able to show any revenue streams to banks, who in turn would refuse to provide them loans. The possibility to directly supply to the grid, instead of transmitting via CEB should be considered so that the private sector can directly fulfil their energy needs. Unbundling of transmission and generation will happen under CEB's restructuring process, which will take up to 1.5-2 years.
12. There is a need to devise a mechanism with LG authorities to get waste for commercial purposes, including manufacturing of fertilizers.
13. Composting facility is already established across the country but needs to be upscaled and improved to fulfil local fertilizer requirements.

Opportunities:

1. Currently, the Sisili Projects Consortium is involved in municipal waste stream and industrial. 63% of the former is decomposable. Almost all Local Government (LG) institutions run facilities for material recovery and composting facilities and around 8000-10000 people are informally active in the waste management industry to manage different waste categories.
2. There is no mechanism to map waste. Regarding the possibility of mapping waste, it must be noted that different geographical areas may have varied compositions of waste. Additionally, composition of waste is dependent on consumer patterns which are drastically changing due to the dynamic economy. Thus, for development of waste mapping, there must be an integrated model which is focused on more than collection, disposal, or source of generation, i.e., it should be a circular model.
3. We mostly focus on recycling alone. However, focus should be on reuse, recycling, and responsible manufacturing. Policies should be put in place for companies to use better environment-friendly materials in their production. However, this cannot be achieved overnight since there are many jobs and livelihoods dependent on sourcing raw materials, such as single-use plastic.
4. The biggest hassle for this would be the quality of waste. To increase efficiency of waste management, the quality of waste must be maintained. For instance, if a consumer throws away a cup of yoghurt with some food still left, then the plastic cup must be cleaned prior to recycling, which increases the back-end processing costs. Therefore, just after consumption, if consumer removes the foil on the yoghurt cup and washes it, there is less expense in cleaning of waste collectors afterwards. Also, if the cup is positioned correctly in the garbage, the immediate impact is higher volume. Thus, if the quality of waste is maintained, the waste volume will increase which would make the collection process more efficient. Additionally, back-holding (reverse logistics) of waste stock (which Hayleys PLC can help in) is an area which requires classification of waste.
5. It is possible to increase efficiency via micro scale industrial expansion. This implies the need for a mechanism to channel specific waste to specific institutions. This refers to separation of different types of waste. Having a variety of waste categories will reduce cost. A special distinction to be made here is for combustible waste. Valuable plastic items get contaminated from plastic syringes. This reduces the amount to be recycled and causes health hazards. There must be an increase in community awareness to tackle this.
6. In respect to the GOSL's policy momentum, cost of environment is now being factored in and is channelled to the recycler. For this, traceability is important to figure who is producing waste and who will set it off. A national target must be established for this.

7. Brand-holders have the option to go for pocket polluter principles along with local governments.
8. In Sri Lanka, waste management systems in Colombo municipality are the strongest as they have a centralized clinical waste management system (started in 2014, collaborated with Korean experts) which is a PPP (Public Private Partnership). There is an incineration facility with flue gas at Kerewalapitiya and it takes in clinical waste. This system is different from that managed by Aitken Spence which is for municipal waste. For the clinical waste management system, there is currently a cashflow issue as the main client is the Government; and the plant operates under-capacity. This system is an agreement between Ministry of Health, Ministry of Environment, and Sisili Projects Consortium. The latter states that it has the capacity to share the technology used at this plant with the rest of the SAARC region. However, one of the bigger issues which they face is transitioning to a circular model.
9. IIX has invested A-tech bio-digital based out of Cambodia which offers a pay-go model, wherein the machines shut off as soon as the farmer doesn't pay the monthly fee. It's easier to successfully implement such smaller projects instead of focusing on large-scale projects. Companies like Arpico and Nestle had projects, but none of them worked.
 - Arpico had a biogas unit wherein the households could purchase and make compost for their gardens. However, only the inventor could teach the household how to fix this unit, while in their absence, the unit could not be used. Thus, expanding skill levels is vital.
 - Nestle had a program with their farmers, wherein they provided them a bio-machine which was used to supply them manure and energy for 2-3 light bulbs in their homes. None of these projects continue to work anymore.

The reasons for this pertain to grid electricity and chemical fertilizers subsidy.

- As grid electricity is widespread, electricity from other sources isn't popular, including that from biogas.
- As chemical fertilizers are subsidized, farmers don't want to produce their own fertilizers. However, due to the prevailing economic crisis, interest rates have risen gradually. The North-Western provincial council distributed around 160 biogas units only for the use of fertilizers.

Future of Investment:

1. The issue of getting funding towards waste management is that largely investor appetite is not geared towards MSMEs – who are the primary players in this industry. It is considered too risky. Hence, the solution is to opt for a microfinancing structure.
2. The possibility of stock to be recycled and used as collateral depends on case-by-case and bank-by-bank basis. Sometimes, the supply chain itself can be used as collateral.
3. Banks in Sri Lanka are using cashflow based lending as collateral is the least preferred lending option due to its lack of feasibility. Primary issue which the banks face in waste management industry is related to the borrower's credibility as there is a potential risk that the borrower may use the borrowed money for something that is against the defined loan objective.
4. Banks in Sri Lanka are using cashflow based lending, because collateral is last on the list of preferred lending options due to its lack of feasibility. The issue which the banks face in waste management industry is related to the borrower's credibility as there is a potential risk that the borrower may use the borrowed money for something that is against the defined loan objective.
5. Thus, the prevailing funding issues in this industry stress on the importance of a blended finance fund.

Healthcare

Moderators: T Sayandhan (Sunshine Holdings), Devahuti Choudhury (UNDP)

Participants: Rasanja Perera, TWC; Tharinda Jayawardena, TWC; Chamindry Saparamadu, SD Council; Nadeeka Amarasinghem SD Council; Kamalini Ellawala, Commercial Bank; Dushanthi Ranpatige, Commercial Bank; Janith Jayasinghe, Sri Lanka Chamber of Medical Devices Industry; Kasturi Wilson, Hemas; Shiran Fernando, Ceylon Chamber of Commerce; Rajendra Theagarajah, Ceylon Chamber of Commerce; Nalaka Niroshana, Nawaloka Care Group; Rakshitha Tudawe, Amrak Institute; Ranga Wimalasuriya, Amrak Institute; T Sayandhan, Sunshine Holdings; Tamani Dias, Standard Chartered Bank; Dr. Janaka Wickremasinghe, Navesta Pharmaceuticals; Dr. Upuli Wijemanne, Ministry of Health; J.S.R Liyanapatabadi, BOI

Challenges and Mitigating factors:

1. Due to the ongoing economic crisis, the private sector pharma market is adversely impacted. Sale of essential medicines has reduced (an estimated drop of 30% in the NDC segment); waiting time in hospitals has increased; demand for nurses and radiographers has risen. Notably, approximately 400 specialty doctors have migrated to other regions.
2. Healthcare training and education:
 - There is a growing demand for a more transparent system for accreditation and approval purposes. In Sri Lanka, around 280,000 students sit for GCE AL exams; approximately 120,000 pass out from school; out of which only 41,000 are eligible for government university/state vacancies. Balance 101,000 students do not have access to state education/jobs.
 - Considering that significant number of resources come in from the private sector, Sri Lanka should promote industry-based education.
 - The government is currently exploring the idea to set up a separate body to provide accreditation for the private education bodies (which may materialize in the coming 2-3 months).
 - English is a competency issue amongst healthcare sector professionals.
 - Need to look at the special needs at the national scale.
 - Sustainability and conservation concepts should be taught to all students.
 - Sri Lanka must reshape the labour market where youth unemployment is high. The grass-root level perspective about certain job categories e.g.: nurses, needs to be changed.
 - The nurse unions control the sector. Sri Lanka should move away from the union concept. The opportunity created for Sri Lankan nurses to study/work overseas leads to a pressing issue where they cannot be reintegrated back into the state sector due to nurse union controls. Hence, highly trained private nurses need to be integrated and accommodated back into state sector. (The NHS programme started 19 months ago, wherein 161 state nurses were sent over to the UK for 3 years, with free master's degrees as per the agreement).
 - State nurses require upskilling to improve English competency, leadership skills and soft skills such as critical thinking and digital literacy.
 - TVEC and NAITA curriculums for nurses have not been updated over the last 15 years.
 - Sri Lanka is unable to get overseas doctors to work in the country due to the politicization of the GMO.
 - Foreign universities can set up local operations in the country to bring in their students and continue education services within Sri Lanka. However, this idea did not materialize in the past.
 - The country should improve the capacities and facilities of nursing schools.

3. As the rate of Non-Communicable Diseases (NCDs) is increasing in Sri Lanka, the healthcare sector must scale up care support for the vulnerable communities.
4. Currently, 85% of pharmaceutical needs are imported and the domestic demand is not driving the desired business of service.
5. Approximately 70% of Sri Lanka's workforce consists of graduates. Employment generation in the healthcare sector can help mitigate brain drain crisis in Sri Lanka. Globally, there are approximately 15 million jobs which demand nurses, assistant physicians, and similar roles in the healthcare sector.
6. Sri Lanka requires a solid policy framework to address the fundamental issues in the sector. Small countries like Ireland, Jordan and Singapore are large players and have been able to survive in the pharmaceutical industry with a sound policy framework. A recent meeting was held with WHO to initiate a roadmap for Sri Lanka in this regard.
 - There should be a 10 to 15-years policy, such that the risk for investors is minimized.
 - The Ministry of Health (MoH) should take the lead in developing the policy (at a recent meeting, MoH gave the green light to proceed, however this requires formalization. WHO is taking the lead on this).
7. Currently, there are two primary pharmaceutical zones – Hambantota, which is not progressing anymore, and Anuradhapura. As there are no local experts to work in these zones, a market plan is required to assess if the area is feasible to conduct the envisaged activities.
8. Vayamaduwa and Arabokkam are dedicated zones for pharma and zones for infrastructure are also ready, however investors are not willing to invest (no proposals received yet). Some investors have raised concerns, including sea breeze, presence of cement industry and the like. As per experts, dedicated zones have better water quality and should be factored into the environmental assessment.
9. The regulatory framework for this sector must be made more robust. Currently, there are 2 pricing committees which must be made more transparent.
10. Due to high regulations in the market, Sri Lanka must collect and maintain at least 2 years of data on the local market. In the absence of such data, there would be no level playing field against the import market.
11. 2022 National Medicines Plan was discussed with WHO, wherein it was emphasized that Sri Lanka must be self-sufficient with the essential medicines. However, the cabinet approval did not materialize.
12. The financial cost and financing component is a key issue. As the largest customer for the local manufacturers is the Government of Sri Lanka, payments do not roll-in on time. The MoF can play a critical role in terms of tenders and payment processing.
13. In the absence of a buy-back agreement, guarantee to encourage more investors to enter the market cannot be provided.
14. International banks can enter the market if the revenue stream of pharma industry is diversified by making it more export oriented. However, expected cost for manufacturing domestically for export purposes is unknown.
15. BOI is currently in a difficult position to promote investment and regulate taxes.
16. Local manufacturing corporate tax was at 30%, which is the same for an importing marketeer and a local manufacturer. This is a critical issue for local manufacturers. Sri Lanka should explore if taxes can be reduced for local manufacturers.

Opportunities:

1. Potential opportunities in Sri Lanka may include:
 - Provision of training for healthcare workers
 - Strengthening of local manufacturing and manufacture of patented products due to Sri Lanka's low MIC category.

- Explore competing with non-stringent markets, like Africa and Asia.
- Invest in indigenous medicines as there are no NMRA approved indigenous cough syrups in the country.
- Sri Lanka can be an alternative for Singapore and Thailand in the herbal medicine industry.
- The country is not ready for medical tourism but can capitalize on rehabilitation, thereby bringing in medical tourism.
- Transnational education: there is scope to bring students from overseas to study in Sri Lanka. (a few private actors exploring avenues in Rwanda; the British High Commission's caregiver recruitment arm etc.).

Investable and scalable models, including those based on concessionary financing, should be explored in the healthcare sector.

2. A universal health insurance scheme can be explored as a health cover shield, even though policy issues exist in the system.
3. Reliable and affordable access are key economic considerations. Some of the pressing issues can be raised at the SDG Steering Committee on SDG 3.
4. Since healthcare sector is a highly regulated market, setting up zones can help propel opportunities. However, to protect the stakeholder value and drive further growth in the sector, existing issues need to be addressed.
5. The Government buy-back agreements should continue and a guaranteed buy-back agreement with the Ministry of Health can be explored. India and Bangladesh are solid examples - where they provide import substitutions and export rebates. Sri Lanka introduced a buy-back agreement in 2015 which came to a standstill, eventually.
 - A buy back agreement for 10 years will promote investment.
 - Export rebates for at least 10-15 years are needed to maintain sustainability.

Example: Ethiopia is going to be marketed as a pharmacy of Africa primarily due to the agreement signed with WHO.

6. EDB has limited knowledge on pharma but has been supporting recent efforts and has brokered recent meetings with the Government.
7. The Ministry of Foreign Affairs can further support the coordination between various actors in the space.

Future of Investment:

1. Healthcare is a highly capital-intensive industry with a long-term return on capital. In this sector, for every USD 1 investment in nutrition, the payback is USD 5.
2. Pharma is a recession proof and climate proof industry. Hence, strong investment in this sector needs to be encouraged.
3. Being highly regulated is good for the healthcare industry and contributes to its scaling-up. The WHO 3-day comprehensive audit encourages the sector to maintain high standards.

ANNEX II: LIST OF ATTENDEES

| Sector | Organization |
|--------------------|---|
| Renewable Energy | Commercial Bank |
| Renewable Energy | USAID Sri Lanka |
| Renewable Energy | USAID |
| Renewable Energy | Market Development Facility (MDF) |
| Renewable Energy | Regen Renewables |
| Renewable Energy | IFC |
| Renewable Energy | University of Moratuwa and the Ceylon Chamber of Commerce |
| Renewable Energy | Ceylon Chamber of Commerce |
| Renewable Energy | UNDP |
| Food and Beverages | Market Development Facility (MDF) |
| Food and Beverages | BOI |
| Food and Beverages | BOI |
| Food and Beverages | IIX |
| Food and Beverages | Talawakelle Tea Estates PLC |
| Food and Beverages | World Bank |
| Food and Beverages | Sri Lanka Agripreneur Forum |
| Food and Beverages | Ceylon Chamber of Commerce |
| Infrastructure | SLYCAN |
| Infrastructure | TWC |
| Infrastructure | DFAT |
| Infrastructure | Sisili Hanaro Encare |
| Infrastructure | Modern Pack |
| Infrastructure | IIX |
| Infrastructure | Coca Cola |
| Infrastructure | Amana Bank |
| Infrastructure | Serendib Assets |
| Infrastructure | Sanasa Development Bank |
| Infrastructure | Ceylon Chamber of Commerce |
| Infrastructure | JICA |
| Infrastructure | ADB |
| Infrastructure | Commercial Bank |
| Infrastructure | BOI |
| Healthcare | TWC |
| Healthcare | SD Council |
| Healthcare | Commercial Bank |
| Healthcare | Sri Lanka Chamber of Medical Devices Industry |
| Healthcare | Hemas |
| Healthcare | Ceylon Chamber of Commerce |
| Healthcare | Nawaloka Care Group |

| Sector | Organization |
|----------------|--|
| Healthcare | Amrak Institute |
| Healthcare | Sunshine Holdings |
| Healthcare | Standard Chartered Bank |
| Healthcare | Navesta Pharmaceuticals |
| Healthcare | Ministry of Health |
| Healthcare | BOI |
| Consumer Goods | MAS Holdings |
| Consumer Goods | TWC |
| Consumer Goods | DP Secretariat |
| Consumer Goods | Hayleys Advantis |
| Consumer Goods | USAID Sri Lanka |
| Consumer Goods | House of Lonali |
| Consumer Goods | WUSC |
| Consumer Goods | Star Garments (Pvt) Ltd |
| Consumer Goods | Brandix |
| Consumer Goods | JAAF |
| Consumer Goods | BOI |
| Consumer Goods | Pan Asia Bank |
| Consumer Goods | Isabella (Pvt) Ltd |
| Consumer Goods | Cargills Bank |
| Consumer Goods | International Trimmings and Labels Lanka (Pvt) Ltd |
| Consumer Goods | Ceylon Chamber of Commerce |
| Consumer Goods | LIIN |

